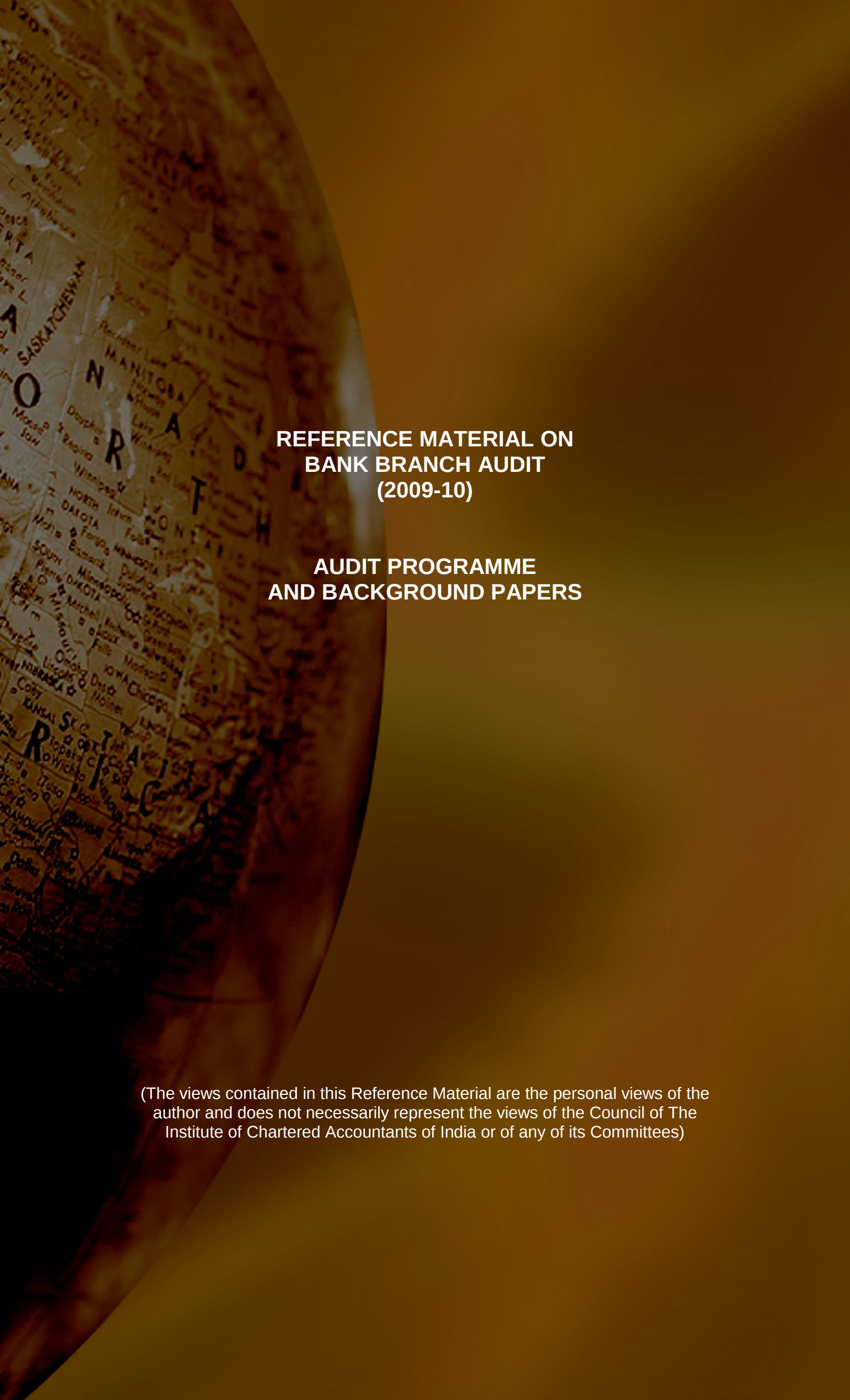




REFERENCE MATERIAL ON BANK BRANCH AUDIT (2009-10)

AUDIT PROGRAMME AND BACKGROUND PAPERS

(The views contained in this Reference Material are the personal views of the author and does not necessarily represent the views of the Council of The Institute of Chartered Accountants of India or of any of its Committees)

MESSAGE



In the last decades, banking sector in India has witnessed tremendous change and their role has extended beyond normal banking to multi-facet activities supporting developments in the Indian economy. This change has strengthened the banking arena making it customer friendly and more regulative in nature. The banking sector therefore warrants serious attention of the auditors towards their prudential norms and thereby require audit of their banking business strictly in integration with banking regulations and Government directives.

In order to equip members of the profession with updated knowledge in the core areas of banking operation, there has been a widespread need for Guidelines on bank branch audit which may provide information on latest circulars and orders issued by Reserve Bank of India and other regulative bodies vis-a-vis its relative impact.

I congratulate CA. Sanjeev Maheshwari, Chairman-Committee on Capacity Building of CA Firms & Small and Medium Practitioners and CA. Pankaj I C Jain, Chairman-Professional Development Committee for taking initiative to release updated reference material on bank branch audit and I am confident that this publication would surely help the members in discharging their responsibility during branch audit in a very effective manner.

I feel great pleasure in acknowledging the efforts and the contribution made by CA.M. M .Khanna, Past Central Council Member in preparation of this reference material on Bank Branch Audit 2010.

CA. Amarjit Chopra

President

The Institute of Chartered Accountants of India

Dated : March 15, 2010

MESSAGE



The Indian banking sector is one of the largest banking sectors of the world and stands as profound pillar in the growth of nation's economy. This is the sector which got revolutionized heavily due to advancement in information technology. The banking regulators and Reserve Bank of India have prompted them to cater multiple needs of investors and customers. Hence, it is imperative to adopt the right approach and techniques to ensure that their audit is completed with best quality and standard within the shortest time possible.

ICAI's endeavor is to keep all the members updated on latest developments in banking sectors and abreast with regulative norms in order to deliver quality audits. Bank branch audit is a crucial part of our profession and needs serious attention of the members. Henceforth, various publications are released by ICAI on the subject matter time and again.

I am happy to note that Committee on Capacity Building of CA Firms and Small & Medium Practitioners has taken initiative to release an updated Reference Material on Bank Branch Audit 2010 which contains very useful information and references on audit procedure of branch audit and help in conducting bank branch audit in a planned and effective manner.

CA. G. Ramaswamy

Vice - President

The Institute of Chartered Accountants of India

Dated : March 16, 2010

MESSAGE



Bank branch Audit is one of the more important assignments carried out by the Small & Medium Practicing Firms. The focus is on delivery of quality audit amidst time constraints. This poses a challenge for the Practicing unit - to be updated on the various circulars pronounced by RBI, adapt to technological changes in the Banks, train the team, and maintain documentation as required under SAP, amongst others.

Committee for Capacity Building of CA Firms & Small and Medium Practitioners has endeavor to strengthen technical competence of CA firms particularly the small and medium practitioners. In this connection, it was felt that the Bank Branch auditors need a handy but comprehensive reference material, which may enable them to carry out the Audit in Planned & efficient manner. This reference material provides the members with check lists, formats, relevant circulars and important tips for conduct of Audit.

I am extremely thankful to CA. M. M. Khanna, past Chairman, NIRC and past Central Council Member, ICAI who has put in extra ordinary efforts to prepare the Reference Material on the subject at a very short notice. I extend my gratitude to CA. Sanjay Vasudeva and CA. (Dr.) Suneel Maggo, for their valuable contribution. I also acknowledge the efforts of CA. Vipul Choksi for coordinating the efforts on behalf of the committee.

I also thank President, CA. Amarjit Chopra and Vice- President, CA. G Ramaswamy for their encouragement.

I am confident that all the members concerned will be immensely benefited with this compilation.

CA. Sanjeev Maheshwari

Chairman

Committee for Capacity Building of CA Firms &
Small and Medium Practitioners

March 15, 2010

MESSAGE



In the era of globalisation, every bank, whether it is a public sector or a private sector, is trying to convert itself into a financial power house and provide large number of para banking services through their various subsidiaries or joint ventures instead of being only a banking solution provider.

Due to increased volume of business, banks have opted for the advanced technology and they are working in the CBS environment. Therefore, auditors need to know the technicalities involved in the new system.

To impart an updated knowledge in this regard, Committee for Capacity Building of CA Firms and Small & Medium Practitioners duly supported by Professional Development Committee has brought out this e-book. While preparing the booklet, every effort has been made to incorporate the relevant reference material and technical topics for adding value and giving clarifications to the members of the profession in discharging their responsibilities while conducting Bank Branch Audit more effectively.

I wish to place on record my compliments to CA. Sanjeev Maheshwari, Chairman, Committee for Capacity Building of CA Firms and Small & Medium Practitioners for his efforts in bringing out this e-book. Its release has been planned at an opportune time when these audits are round the corner.

I sincerely hope that this booklet will prove to be very useful and informative to the members for the smooth conduct of Bank Branch Audit and will achieve its objectives.

CA Pankaj I Jain

Chairman

Professional Development Committee & Peer Review Board

ABOUT THE AUTHOR



CA. M.M. Khanna, a Commerce Graduate from Delhi University, qualified as a Chartered Accountant in 1965 and was admitted to the Fellowship of the Institute in 1970. He is in practice since 1965.

CA. Khanna was elected to Northern India Regional Council of the Institute in 1973 and was at its helm as Chairman in 1975-76. Subsequently, he was elected to the Central Council of the Institute and was its member during 1982-85, and again during 1995-2001. During his membership of the Council, CA. Khanna served several Committees including Accounting Standards Board, Auditing Practices Committee, Research Committee, Corporate Laws Committee, Expert Advisory Committee, Professional Development Committee, International Affairs Committee, Committee on Ethical Standards and Unjustified Removal of Auditors.

He was also nominated to various committees of the Government and Regulatory bodies which included Bank Audit Committee of RBI, Bureau of Indian Standards, GIC Committee to review and formulate audit guidelines for companies carrying on general insurance business, Committee set up by IRDA to review financial reporting requirements of the insurance industry including accounting formats, Northern India Regional Committee of Company Law Board to review Qualifications in Audit Reports.

Besides, CA. Khanna has been director on the boards of banks/mutual fund and is presently director in his professional capacity on the board of many companies.

Widely traveled, CA. Khanna participated in various capacities and contributed on topics of professional interest in various seminars and conferences organized by the Institute/ other professional bodies in/ outside India. He also authored Tax Audit Programme under Section 44AB of the Income Tax Act and Bank Branch Audit Programme on regular basis.

BANK BRANCH AUDIT (2009-10)

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BANK BRANCH AUDIT 2009–10 - NOTE ON REFERENCE MATERIAL

The key business operations and activities relating to banking (including acceptance of deposits, borrowings, lending, custodial and agency services etc.), are conducted only at the branches of the banks, while other offices (Central/Head Office and Zonal/Regional/Divisional Offices (by whatever name called) are mostly controlling authorities or administrative offices that lay down policies and procedures and effective monitoring, control and supervision over the business activities and operations, to ensure proper accounting and accountability.

Besides the statutory, regulatory and accounting compliances in connection with the issuance of the Main report, the Long form Audit Report and Tax Audit Report, there are several other certificates/attestations which now form the scope of the Bank Branch Auditor's audit assignment.

It becomes imperative that the entire scope of work (covered by the appointment letter), involving voluminous work and extensive procedures, is understood and the entire assignment is well planned and executed, *without sacrificing quality*; and so that all requisite reports/attestations are furnished within the stipulated severe time constraints imposed for the completion of the assignment.

The objective of the background material is to provide guidance/instructions/reference material to auditors in the conduct of audit of a Bank Branch for the year 2009-10, to enable them to be equipped with the basic knowledge and skills and to ensure that the assignment is completed expeditiously and in the manner expected.

The audit exercise will involve the following:

1. Preliminary work/ familiarization exercise:

To effectively and expeditiously carry out the audit at the Branch level, each member of the audit team, is expected to be familiar with:

- a. Legal requirements applicable to the bank (as a banking company, nationalized bank, State Bank of India or its associates, Co-operative bank, Regional Rural Bank, etc.), particularly as regards financial and other disclosures and audit reporting,
- b. Important applicable circulars of Reserve Bank of India (RBI). Reference may be made to **Section J** for those issued during the period from 1-1-2009 to 7-3-2010, which are informative and relevant for the purpose. A request may also be made to the Management that these should be available for reference in the course of audit at the Branch. The RBI Circulars can also be accessed on the website of the RBI, in case of need.
- c. Of importance are the prudential guidelines issued by RBI, particularly the Master Circulars, including for classification of advances, provisioning and Income recognition (**DBOD No.BP.BC.17 and 58 /21.04. 048/2009-10 dated 1-7-2009; and 5-11-2009 respectively and DBOD No.BP.BC.42 /08.12.015/ 2009-10 dated 11-9- 2009 regarding what constitute CRE exposures**); as well as statutory and other restrictions on advances contained in the Master Circular (**DBOD No.Dir.BC.13/3.03.00/2009-10 dated 1-7-2009**) -also **Sections E and L**). This is important since as per the legal requirements, provisions for advances are to be to the satisfaction of the auditors; and it is imperative that the correct health status of the borrower be verified and any deviations at the Branch be reported for this purpose. The health status and classification of the advances also has effect on the income recognition. In an EDP environment, it is imperative that the auditor is familiar with, and is satisfied that, all the norms/parameters as per the latest applicable guidelines are incorporated and built into the system that generates information/data that has effect on the provisions and income recognition.
- d. The regulatory requirements as regards various **disclosures** in the case of Banks (summarized in **Section L** in line with the RBI Master Circular **DBOD.BP.BC No. 22/21.04.018/ 2009 -10 dated 1-7-2009** and the importance of correct and complete the information both at the centralized and the decentralized levels, *particularly if the information/data originates from the branch.*

- e. Long Form Audit Report (LFAR) Questionnaire prescribed by RBI and relevant to the bank branches, also requiring additional information for large and specialized branches (**Section F**); and matters deserving special attention as listed in the Management letter (**Section A - Annexure VII**).
- f. Circulars from Head Office/Controlling Authority, issued to the branches/offices of the bank *{which Circulars are expected to be in line with the statutory and regulatory impositions for the time being that provide the requisite guidance/ instructions to be uniformly followed and requiring compliance by the branches/offices from the effective date(s)}*, particularly the Instructions relating to closing of accounts at the year end.
- g. Publications of the Institute of Chartered Accountants of India, particularly the:
 - i) Guidance Notes (latest editions) on:
 - . Audit of Banks
 - . Tax Audit under section 44 AB of the Income tax Act, 1961.
 - ii) Statement on Qualifications in Auditors' Reports,
 - iii) Accounting Standards and Standards on Auditing (Refer **Section G,G.I and G.II**, which, *though not immediately relevant*, also provides information on the related IFRS) *In performing his duties, the auditor must be fully conversant with the Standards on Auditing, particularly SA 310 (as regards knowledge of banking business) and SA 250 (Consideration of Laws and Regulations in an Audit of Financial Statements) and for the latter he must enquire and be satisfied that the Branch maintains a record/register of the applicable statutes/regulations and has kept the same updated. Generally many of the compliances are diarized and a calendar of returns also maintained at each office/branch for compliance.*
- h. Significant Accounting Policies of the Bank, particularly those relevant to the branch. Any change since the previous year must be enquired into for reporting the effects thereof, in relation to the branch for the year.
- i. Internal Controls (refer also **Section H**), particularly in the EDP environment.
- j. Basic Analytical procedures that may be adopted (Refer also **Section I**)
- k. Previous branch auditor's main report, LFAR and the latest available reports of inspection/ internal/concurrent audit, special/credit /systems audit (refer also **Section A – Annexure I, Para 1**), to enable the branch auditor to comprehend the nature, thrust and volume of the branch business, the types of errors/ omissions, irregularities and defaults, if any, in the past **and** the compliance levels etc. so that the audit risks can be assessed and addressed in the audit plan.
- l. Auditor's responsibilities in relation to frauds/ fraudulent activities. Refer RBI Master Circular DBS.FrMC.BC.No.1/23.04.001/2009-10 dated 1-7-2009 (also see **Section K**)
- m. Terminologies internally used by the bank to describe transactions / balances. (Refer also section N for abbreviations used by RBI in its notifications/circulars)

2. Audit engagement and representation Letters, seeking information:

Communications, including seeking information from the Branch Management must be sent:

- **upon appointment** (soon after acceptance) (**Section A** - together with requisitions as per **Annexures I, II, III, III.1, III.2, IV,V, VI and VII**)
- **for year-end procedures** (**Section B**)

The communications (text of which is recommended in **sections A and B of the background material**) are self explanatory and must form part of the **Documentation papers** of the auditor. These cover the basic minimum requisitions on the financial statements seeking information and explanations for the purpose of the assignment; and

these and the audit procedures could be further supplemented/ modified /strengthened by any other additional requirements due to matters/issues in the specific knowledge of the Branch Auditor, (due to his past association with the same branch/bank's affairs/operations) or otherwise in the course of audit as it progresses.

Management response to the audit requirements

Management response to the audit requirements as per the firm's letters **[suggested in Sections A and B]** must be received from the Branch **simultaneously** with receipt of the initial statements; otherwise a reminder must be given in writing seeking compliance of the queries well before the Audit Report is finalized, to enable the information/explanations to be examined to the auditor's satisfaction.

*The management responses must be specific to the information sought and a general reply from the Branch Management, e.g., that "all information is already given", would not be a reasonable/adequate response to the letters. Reference may also be made to the Guidance Note on Audit of Banks, which gives an illustrative Management Representation letter that should be obtained from the Branch. This should be modified to cover other issues and matters that need to be incorporated based on facts and circumstances. Illustrative Management representation letter to be addressed to the Branch Auditor by the Branch management is given in **Section CC**, and should form part of the Auditor's working papers.*

If there is no Response, a letter should be addressed to the Branch Management binding them on the information furnished during the audit, covering all matters in the letters not replied.

In preparing his report, the Auditor needs to take a view on non receipt of response to the questionnaire or any part thereof, any mis-representations by management or any reply contrary to facts, or in case the Bank proclaims having given information which is actually not furnished, or is inappropriate/incorrect. Any limitations/restrictions on the duties /responsibilities of the auditor, must form part of the report. **Lack of response from the Branch should also be reported in the LFAR.**

The work done by the audit staff needs to be evidenced on record.

3. Audit Programme:

Considering that transactions in a bank branch are voluminous but repetitive, it is appropriate to carry out the procedures head-wise; and it is for this reason that the Audit Programme is so drawn up head-wise **(Refer pages C 1 – 33)**.

Heads for which no figures appear in the Branch Statements, may yet be relevant for audit and are important for an understanding of the nature and type of activities and flow of information from the branch to the centralized office for the preparation of the Bank's financial statements; e.g., recording at a centralized level, fixed assets acquired/used at the branch, issuance of drafts that are not controlled at the branch level etc.

Audit procedures recommended may be strengthened in areas of weakness, and based on matters that come to light as the audit progresses; and **such additional procedures that need to be adopted should be documented; and also incorporated in the audit programme in the space provided under each head.**

In confirmation of the work completed, the audit assistant must sign against the relevant item of the programme **immediately upon conclusion of each part of the assignment handled by him**; and if any part is not applicable, it may be so indicated by stating "NA."

4. Internal controls:

The audit staff needs to be familiar with internal control procedures **and must keep in view the inherent audit risks** arising from and focus sharply on effect, if any, of:

- **absence** of internal control procedures/systems,
- **inadequacy** of such procedures/systems, and
- **breach** thereof;

and particularly also in view of what is stated in the following paras. The effect of the above must be considered for incorporation in the report(s).

[Reference may also be made to **Section H** more relevant at Branch level]

5. Execution of the assignment/ Signing of annual financial statements:

a. General:

The financial statements (returns) of the bank branches, once prepared (based on books as closed as at the year-end), leave no scope for any changes therein at the branch level, and no further entries/adjustments as at the year-end can be made at that level.

It is recommended that, as the first part of the audit exercise, the audit staff must ensure that the figures in the branch annual financial statements, **which are frozen** (as stated above), are checked as in agreement with those as per books. This must be attempted at the commencement of the audit at the branch level; and the returns as finalised and authenticated by the branch management can, after such exercise is done, be countersigned by the audit firm with the remarks **“SUBJECT TO AUDIT REPORT”**.

It is, therefore, imperative that the Branch Management makes available for audit verification, **all** the Branch returns/ statements/schedules (and not merely the Balance Sheet and Profit and Loss Account) duly **stamped, signed and dated by the authorised officials; and all corrections made therein must also be authenticated**.

In the EDP environment, the auditor may also look into the entries relating to the day end procedures and adjustments made before the branch statements are finalized and the figures frozen.

While receiving any statements/details, it must be ensured by the audit staff that they record under their signature (on the inverse side of each statement/detail), the date on which each statement is actually received.

The date of delivery of each statement to auditors should be countersigned by the Bank officials notwithstanding that on the face of the statement, the date is different (usually the year-end date).

b. Overview of the financial statements:

It is recommended that the audit staff concerned should review the corresponding comparative figures for the earlier year which assist in looking into any unusual or large variations that need to be enquired into and covered in the audit procedures, if required. They should jot down (*in their own copy of the statements received*), against each head/sub-head, the comparative figures for the previous year (preferably in pencil), in case the comparatives are not given by the branch – both for the Balance Sheet as well as Profit and Loss Account items.

They also need to see whether there are, prima facie, any unusual changes or divergent trends since the earlier year between:

- advances and interest income; and
- deposits and interest expended.

c. Areas deserving special attention:

While examining the financial statements, due importance needs to be given to all heads of accounts, based on the audit risk attached thereto.

Advances:

Special emphasis is invariably required for verification of the Advances portfolio, in respect of which the Branch auditors have greater responsibility, since provisions in respect thereof are to be to their satisfaction, based on internal health categorization of the borrowers, as also affecting the income recognition.

i. Prudential Norms made applicable by RBI

To familiarize auditors with the prudential norms applicable in relation to the Advances portfolio (for income recognition, asset classification and provisioning), a gist of the

Master Circular issued on 1.07.2009 by the Reserve Bank of India (RBI) is incorporated in **Section E** and could be used as a basic reference material.

ii. Selection of accounts for audit coverage:

For *selection of advances accounts* that deserve special attention for audit coverage, one may refer to **Section C I (pages 34-35)**.

It is recommended that in respect of **each large borrower** (*where the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs. 2 crore, whichever is less*), information be obtained in a structured format (**Refer Section A III**) which not only would cover the reporting requirements of the LFAR, but also serve the purpose of incorporation in the Main Report, any observations that affect classification/income recognition and provisioning.

In response to the LFAR questionnaire, such form duly completed for each large borrower (by the branch and verified by the auditor), could be annexed to that report.

iii. Centralisation and physical location of original loan documents at Loan Processing Centres.

Of late, there is an increasing propensity in banks to process the loans and advances, including appraisal, sanction, execution of documentation, initial disbursements etc. at Loan Processing Cells/ Centres/ Offices (*by whatever name called*) and to have physical custody/ control over and hold all the original documents at such locations; and such locations that may not be in very close proximity to the branch, where the borrowers' accounts are maintained/serviced. The Branch places reliance only on the Sanction letters/ authorizations in the matter of the operations in the borrowers' accounts, on the presumption that all the required legal and documentation formalities are correct and complete at the centralized location. The Branch also relies on information on the drawing power/limits as communicated by such Offices.

In the absence of the original documents (or even authenticated copies thereof) on an updated basis, the audit verification process would get tardy, although the files identified for examination by auditors *would become available only on specific request*.

The branch auditor must be satisfied on the authenticity and terms of the sanction (in case the sanction letters are only computer generated but not authenticated), the evidence as to the completeness of the records, duly updated, for all accounts where the sanction was so conveyed; and further whether the number of accounts and amounts recorded at such centres/ offices, tally with the corresponding data at the branch. It also needs to be confirmed as to whether there are any cheques/instruments, held by such centres/ offices, that remain unbanked affecting the borrowers' account balances. Reference also needs to be made to any adverse observations in the related monitoring/supervisory reports related to advances processed at such Centres, including on the appraisals, sanctions, documentation aspects at the centralized location, which may not be covered by the Internal Inspection/ Concurrent Audit reports of the Branch..

In nutshell, the control aspects are equally important and may be a major audit risk, if ignored.

iv. Advances involving Restructuring, rehabilitation, rephrasing, rescheduling, nursing etc.

Banks can restructure (industrial and non industrial) borrowers' accounts classified under 'standard', 'sub- standard' and 'doubtful' categories to provide relief and bear sacrifice in case of accounts in distress or those not capable of being serviced on the terms and conditions contractually stipulated, with the objective of ensuring default free accounts. The Auditor is expected to be familiar with the regulatory impositions/ guidelines and their faithful compliance by the bank in this regard, as also exercise judgement as to the appropriate classification status emerging from the proposals to restructure; having impact on the revenue of the Branch. Reference may be made to **Section E**, as also the information he needs for his satisfaction and reporting.

d. Accounts maintained in EDP environment:

In case accounts/records are maintained in the EDP environment, the audit staff must be familiar with the systems and procedures adopted by the Bank and determine the extent to which computerization/mechanization has been made; as also to incorporate additional procedures, if any, in the Audit Programme.

Manual intervention to System generated statements/information, need special attention of the Auditor; and he needs to be familiar with these procedures.

Examination of the daily exception reports, both as regards systems and transactions assumes significance and can be a source of critical inputs into the reports.

In case the branch is fully/ partially automated, it needs to be ascertained as to:

- the platforms on which the operations and accounts are based,
- whether there are various packages covering different sets of transactions,
- the identification of vendors dealing with the same, so that the verification procedures are appropriately adopted.

Special care needs to be taken to determine on how the transfer of balances from manually maintained ledgers to the computerized accounts initially took place in respect of heads/sub-heads, where there were arrears of reconciliation or where there are any old /large/unexplained outstanding entries, particularly in nominal heads of accounts.

Clarifications, if required, may be resolved with a partner or a senior assistant in-charge of audit.

e. Additional responsibilities in relation to Frauds/fraudulent activity etc.

The scope of the audit assignment also now includes issuance of a confirmation to the Chairman of the Bank and in case of frauds involving Rs. 100 lakhs or more, to the Reserve Bank of India, and report **on any matter susceptible to fraud, or fraudulent activity or any foul play in any transaction**. This has extended the scope of work of the auditors and cast a responsibility well beyond normal audit procedures. The audit team would be well advised to look into aberrations in the internal control systems/procedures, and get response to the specific query made in writing to the Branch. Audit procedures must include looking into the exceptional reports generated daily, with regard to accounts maintained in the EDP environment.

Special attention must be paid to extensive use of nominal heads of accounts (like SUSPENSE, SUNDRIES), custody and control over critical stationery, large cash transactions, unrecorded contingencies and letters of comfort, originating debits in inter branch (Head Office) Account, unlinked debits in Bills Payable (DDs, TTs, MTs, Banker's Cheques, Pay Orders etc.), loss of control over credits in overdue/unclaimed Deposits and those automatically renewed, operations in inoperative accounts etc.

(Refer also to **RBI Circular No.DBS.FrMC.BC. 1/23.04.001/2008-09 dated 1-7-2009** as also **Section K** for broad guidance as to and expectations from auditors in this regard).

Based on audit exercise carried out (generally subsequent to the year end) as per the Audit Programme, it is only through the **Memorandum of Changes (MOCs)**, that the errors/ omissions are remedied at a centralized level to give effect to the accounting adjustments required but not made at the branch up to the year-end. In the case of the bank branch, the MOCs will also include change in the classification status of the borrowers, as compared to that determined by the branch management in relation to the advances examined, to enable provisions to be made accordingly at the centralized level of the bank for such borrowal accounts, based on the auditor's report.

6. Observations/ Reporting:

It is imperative that the audit notes/observations/work papers and evidence of work done should be retained in the audit file, duly indexed, and preferably **in the same sequential order** as that of the programme, , together with Management representations as will enable expeditious completion of the assignment and furnishing of reports and in support of the contents thereof.

Reports, based on Audit Notes and observations taken while executing the assignment

The Main Audit Report must be in conformity with the reporting requirements of law and as per the mandate of the ICAI, rather than following the format suggested by the Bank, if not in conformity with such requirements.

The Auditor's Main Report has two essential ingredients, in that these contain *statements of fact* as well as his *opinion on the true and fair view of the state of affairs and of the operating results* covered by the financial statements under audit.

Auditor's reports need to *unambiguous, complete and clear* in conveying what is expected to be reported. Information which is factually correct (and not means of information), must be ensured and the **concept of materiality** is kept in view, while expressing opinion on the Branch financial statements/returns under audit.

A clean or unqualified report does not pose a problem as generally the verbiage is in line with that in the statute. The auditor's audit exercise may however result in notes/observations resulting in a ***qualified opinion, including disclaimer***.

A distinction, therefore, needs to be made between **adverse comments and remarks of a qualificatory nature** and those of a **clarificatory nature** not having a bearing on the statutory reporting responsibilities.

Remarks of a qualificatory nature must be incorporated (*in bold / italics*) in the main (statutory) report, with the use of the words **"Subject to" or "Except for"; with the financial impact of such qualifications being quantified individually** (to the extent capable of ascertainment) and giving the total composite impact thereof on the state of affairs and on the operating results in the Profit and Loss Account. If not capable of being quantified, or where the auditor disclaims his opinion, the nature of the qualifications must be stated in the Report.

In respect of other notes/observations of a clarificatory nature, if given by management, the auditor may draw attention to the same or use the words "read with" (without qualifying his report in respect of such items).

Recommended text of the **Main** (Statutory) Reports is given in **Section D** (for Nationalised Banks), **Section DD** (for Banking Companies), with some illustrative comments/observations/qualifications in **Section D.Q**; and subject to any specific formats of annexures/schedules recommended by the individual banks in line with the statutory/regulatory requirements, the ones given in the background material are suggested to be followed.

Long Form Audit Report (LFAR)

LFAR must not be reckoned as a substitute for the Main Report as this is pursuant to a Regulatory requirement, expecting the Auditors to examine the responses to the questionnaire in a structured format and is intended for the Management.

Responses prepared by the Branch Management to **Long Form Audit Report (LFAR)** questionnaire (**Section F**) should be verified by the Auditor for the purpose of that report.

The Auditor may elaborate in the LFAR, his qualifications (contained in the Main Report) and while reviewing the responses to the Questionnaire, should include his other observations/ suggestions/ clarifications etc. that deserve the attention of the Bank management.

Tax Audit Report:

The Report is expected to be in line only with the legal requirements in the prescribed form as per the Income tax Act 1961, and requires the auditor to examine information on facts/figures made available at the Branch; and also places reliance on certain

information made known to the Branch by the Head Office. The related report on facts and opinion are in the form of a prescribed form.

Other Certificates/ attestation:

In giving other certificates/attestations, the Auditor needs to satisfy himself as to the factual information and the level of assurance that he can take responsibility for. Circumstances may warrant a *negative assurance* in some cases (e.g., as in case of the attestation in **Section M**) which is recommended for the compliance of the Ghosh and Jilani Committee requirements, *particularly as many of the items of information are incapable of verification by the Branch Auditor.*

It is recommended that the Auditor should complete the entire assignment of audit/attestation as per the terms of appointment, to enable him to simultaneously furnish all his reports and certificates. It is hoped that this will assist in the expeditious completion of the assignment and will also enable the preparation of meaningful and effective reports by the Auditor in the manner expected.

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March __, 2010

The Manager

Bank

(Branch)

URGENT

Dear Sir,

Sub: **Audit of the accounts of your Branch for the year 2009-10 - Audit engagement/ Management Representations:**

You have already been informed by your Management, that we have been appointed as the auditors to audit and report on the accounts of the Branch for the year 2009-10.

We have accepted the appointment, and we confirm that the audit shall be carried out in accordance with the applicable legal provisions and the regulatory requirements, besides the applicable authoritative pronouncements of the Institute of Chartered Accountants of India, with the objective of expressing an opinion on the Branch financial statements. For this purpose we will perform sufficient tests to obtain reasonable assurance as to whether the information contained in the accounting records and other source data is reliable and sufficient as the basis of the preparation of the financial statements; and whether the information is properly presented in the said statements.

You are aware that the responsibility for the preparation of the financial statements including adequate disclosure is that of the Management, and this includes the maintenance of adequate accounting records and internal controls, the selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Branch at the end of the financial year and of the profit or loss of the Branch for that period, and the safeguard of the assets of the Bank/branch.

We will conduct our audit in accordance with the auditing standards generally accepted in India and with the requirements of law. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which might come to our notice through the **Long Form Audit Report (LFAR)**, or otherwise.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' under the Chartered Accountants Act, 1949 and the reviewer may examine our working papers during the course of such review.

We wish to complete some audit procedures even prior to the year-end, depending on your state of readiness/response.

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In view of the severe time constraints imposed, we are confident you will make available to us, within the dates stipulated, the following Branch returns/statements ***duly completed, pre-reviewed and duly authenticated***, to enable us to furnish our reports in the form and manner desired of us by law or by the Reserve Bank of India and not necessarily in the form and manner prescribed by the Bank.

Statements/returns:

- a) the Balance Sheet as at 31.3.2010;
- b) the Profit and Loss Account for the year 2009-10;
- c) the statements relating to the particulars of Advances as at 31.3.2010; and
- d) other supporting returns/statements/annexures
(including those covering also the LFAR requirements).

Information/ clarifications as stated in **Annexure 'I'** to this letter in connection with our assignment, may please also be expedited.

To enable us to monitor the progress of the audit and completion of the assignment, please indicate/mention, the actual date(s) of completion as well as handing over to us of each statement/return/ confirmation or other information required to be prepared by you (as per the contents of the letter of appointment sent to us), by your endorsement on each such statement/return/confirmation, before the same (duly authenticated) are handed over to us on 1st April, 2010.

We await your commitment.

As part of the audit process, we will expect to receive from the Management, written confirmation of the representations made to us and a **written response (para-wise), to our requirements is imperative, and such response is to be based on your verification of facts.**

We shall be grateful if you could confirm the name(s) of the Officer(s) designated by the Branch to comply with our requirements in connection with the audit, so that our reports are expedited.

We shall appreciate your co-operation in the matter.

Thanking you,

Yours faithfully,

CHARTERED ACCOUNTANTS

Annexure I to letter dated March , 2010INFORMATION /REQUIREMENTS IN CONNECTION WITH THE AUDIT OF ACCOUNTS FOR THE YEAR ENDED MARCH 31, 20101. **Latest Reports:**

For our scrutiny, the following **latest reports** on the accounts of your Branch, **and compliance by the Branch** on the observations contained therein:

- a) Branch Audit Report and Accounts;
- b) Long Form Audit Report;
- c) Internal Inspection Report;
- d) Internal/Concurrent Audit Report(s);
- e) Credit Audit Report;
- f) RBI Inspection Report, if such inspection took place;
- g) Income and Expenditure Control Audit/Revenue Audit Report;
- h) Quarterly review report;
- i) Snap and Systems Audit Report;
- j) IS/ IT/Computer/EDP Systems Audit; and
- k) any special inspection/investigation report.

2. **Circulars in connection with Accounts/financial statements:**

Please confirm that you would make available, for our ready reference, a **list and copy** of all the HO/CO/RBI circulars, including **the year-end Closing of Accounts Circular(s)**, relevant to the accounts for the year 2009-10.

3. **Accounting Policies:**

We understand that in respect of the accounts under audit, there is no change in the Accounting Policies of the Bank as applicable to the Branch. If there is a change, since the preceding year, in the Bank's Accounting Policies as having an impact of the Branch statements/returns, we may be duly informed of the same and the financial effect thereof may be computed to enable us to verify the same.

4. **Balancing of books:**

Please confirm the present status of balancing of the subsidiary records with the relevant control accounts.

In case of differences between balances in the control and subsidiary records, please let us know of the steps being taken to reconcile/balance the same.

This information may please be given head-wise for the relevant control accounts, indicating the dates of arrears of balancing.

The year-end status of balancing may be reconfirmed.

Any balancing differences reconciled after the year-end may please be brought to our notice in the course of audit.

5. **Accounts, if maintained on Computer/ in the EDP environment:**

- a) In case the financial information/data is being prepared in an EDP environment at the Branch, please confirm:

- i) whether, **and the extent to which:**

- the Branch records are not yet computerised, and
- outstanding balances picked up at the time of initial computerisation, that lack details and remain unadjusted/ unreconciled.

Head-wise figures taken over from the manual system, and included in the balances as at the beginning of the year and which continue till date may be confirmed, with status of their analysis/adjustment during the year.

- ii) the kind/nature of **software package(s) currently installed** at the Branch; and whether there are any changes/ modifications in the package(s) since the preceding year, **as regards the systems as well as changes brought about by virtue of regulatory/statutory amendments and H.O. Circulars**, including due to applicability of revised interest rates on deposits, advances etc.

The nature, basis and the effective dates of the modifications , may please be confirmed to us.

- iii) Please let us have a confirmation that the print-out of books is taken and will be available for our examination, simultaneously with the branch returns/statements i.e. on 1.4.2010.

Annexure I to letter dated March , 2010 (Contd.)

- b) Please confirm the precise procedures for computer security systems and data security, back-ups, off-site storage (including locations and personnel in charge), contingency and disaster recovery system/plans and adherence thereto at the Branch.
Off site storage locations may be indicated along with information as to the periodicity of testing the data, and whether such periodicity was adhered to.
Any adverse features observed during the year may be confirmed, along with the remedial action taken.
- c) Please keep ready for our examination, the file relating to the **daily exception reports** on the **“system”** as well as **“transactions”**, to enable us to examine the manner of disposal of the reports generated; as also the report for the month-end/day-end procedures as at the year-end. Any such report that is pending compliance may be brought to our notice.
- d) *Please confirm whether, to the system generated information/data having a bearing on the financial statements of the Branch, you have adjusted all transactions with manual intervention to the extent the same was required and necessary, particularly in the matter of recording of items of income and expenditure.*

6. Deposits**a) Overdue/matured Term Deposits:**

- i) Please confirm that credit balances comprising overdue/ matured Term Deposits in various categories, as at the year-end, *do not continue to be shown as Term Deposits*, particularly where the Branch does not have any instructions/ communication for renewal of such deposits from the account holders; and that these comprise Demand Deposits, duly disclosed as such in the Branch returns as at the year end.
- ii) We understand that as per your H.O. circulars and in keeping with the circulars of the RBI, you have introduced a system for automatic/suo moto renewal of term deposits on maturity. The cut-off date(s) beyond which these instructions apply may be intimated to us, indicating as to the status and basis of interest accretion, if any, on the amounts held as Overdue Deposits in the Accounts of the Branch.
- iii) In case of automatic renewal of old matured deposits in terms of your H.O. circulars, please confirm as to the basis adopted at the Branch for computation of the interest component (added to the original principal), for purpose of renewal, i.e. whether it is :
- *simple interest since maturity of the original/initial deposit; or*
- *based on interest rate applicable on the date of maturity of the deposit; or*
- *based on the rate of interest on the date of renewal of the deposit.*
and whether any excess/short provision relating to the prior periods i.e. up to 31.3.2009 is considered in the accounts under review.

The computation of interest may be evidenced for our verification.***The number and amount of such deposits may be confirmed, both for Rupee denominated as well as for foreign currency deposits.***

- iv) Please let us have a list of deposits, which have been received/ suo moto renewed but where:

- deposit receipts are not physically issued, although book entries have been made as per the computerized system,
- deposit receipts are physically issued but not dispatched to deposit holders (*particularly where the amounts received in foreign currency are to be covered by Deposit Receipts from another foreign exchange authorized Link Branch*).

A list of such unissued/undespached Deposit Receipts in the physical custody of the Branch needs to be given and the Receipts produced for our verification at the year end.

- renewals have been made by endorsement of renewal on the existing Deposit Receipts of the deposit holders.

This may be substantiated from your record.**For the above, information may be prepared for deposits:**

- in Rupees
- held in foreign currencies - FCNR(B) Deposits
- in external accounts (NRE accounts, if any).

- v) Please also confirm whether any deposits have been renewed other than in the name(s) of the original holder e.g. in the case of deceased depositors.
In such cases, it may be confirmed to us as to whether the Branch holds the necessary evidence on record.

Annexure I to letter dated March , 2010 (Contd.)

vi) Please confirm as to whether Interest accrued but not due and for which provision is made as at the end of each accounting period, is shown in the balance sheet as part of:

- Deposits or
- Other Liabilities – Interest Accrued;

Further, whether Tax is deducted in respect of the same and deposited, indicating the basis and amount thereof.

b) **Tax Deduction at Source**

Please confirm the system followed by the Bank with regard to deduction of tax at source on interest on deposits (*including in respect of interest provision accrued but not due as aforesaid*), and whether:

- in respect of interest (**based on credit or payment whichever is earlier**), including in respect of **cumulative** Deposit Schemes **and** on renewals of matured deposits, Tax as required to be deducted at source was so deducted on due dates and deposited within the prescribed period; and
- the automatically renewed deposits are net of the Tax deducted at source.

Cases of delay/default may be listed for our review and incorporated in Form 3CD (Tax Audit Reporting Format).

c) **Back-ended or other subsidies adjustable against advances**

Please confirm whether Deposits include any amounts received under specific schemes. If so, the amount thereof and interest, if any, paid thereon during the year, may be confirmed; **and whether interest on advances is calculated net of Govt. subsidies in such schemes.**

d) **Deposits held as margins:**

Please confirm whether against issue of guarantees/ LCs, the Branch holds any cash margins by way of fixed deposits, shown as part of the 'Deposits' portfolio.

If so, the aggregate amount of such deposits may be made known to us.

e) **Inoperative Deposit Accounts:**

Please confirm the procedure followed at the Branch with regard to identification of Inoperative Accounts and safeguards as to operations therein; **and whether the identified accounts are segregated/ maintained in separate distinct ledgers.**

Please let us have information as regards:

- **Aggregate Opening Balance**
- **Additions/Accounts identified during the year**
- **Less: Payments out of such accounts**
- **Balance Outstanding at the year end**

7. **Advances:**

a) Please confirm whether the aggregate of the advances as per the Branch Balance Sheet as at 31.3.2010 reconciles with the Particulars of Advances (Portfolio) statement after including /considering:

- interest bearing staff advances;
- credit card dues;
- debit balances in Savings/Current deposit accounts;
- unappropriated credit balances (including in litigation) pending adjustment;
- DICGC/ECGC and other credit guarantee claims received and pending adjustment;
- **Interest Suspense or any account of similar nature;**
- **subsidies (and interest thereon, to the extent requiring adjustment) ; and**
- **foreign exchange differences on the above, if decentralized.**

Centralised Advances Processing Cells/Centres

In case all or any of the loan procedures (*whether in connection with grant or renewal of credit facilities*) are not conducted at the Branch, but are centralized at any Loan Processing Cells/Centres, (*e.g., Retail Assets and Small & Medium Enterprises City Credit Centre, Retail Assets Credit Processing Centre, Retail Credit Processing Centre, or by whatever name called*), involving appraisal, sanction, execution of documents, disbursements, collection and holding of post dated cheques etc., and the documents are in the custody and control of the said centralized Cell/ office, please confirm as to your preview of the compliance of the applicable RBI prudential norms of asset classification, income recognition and provisioning, in so far as the advances at your Branch are concerned.

Annexure I to letter dated March , 2010 (Contd.)

Centralised Advances Processing Cells/Centres (contd.)

We would like you to satisfy us as to the compliance of the appraisal systems, completeness and accuracy of the original records/documents in the custody and control of the centralized office, pursuant to which you are maintaining the borrowal account; and in particular:

- i) ***that confirmation is available from the said Office as to the number and amount of the advances accounts, and whether these tally with the data in the Branch;***
- ii. ***that the Sanction Letters issued to you by the said centralized office and held by you for your compliance at the Branch, are duly authenticated (and not merely computer generated, without authentication), and that the centralized office has confirmed that these sanction letters subsequent instructions were issued strictly as per the applicable documentation and sanction terms with all updated modifications/ changes therein; and that these in any case are in consonance with the applicable prudential regulatory norms, based on the Guidelines/regulatory impositions in force.***
- iii. ***that the system generated data for the Branch advances is in line with the regulatory built in parameters, based on facts made available from the centralized office as regards matters other than operation of the credit facilities and accounts recorded at the Branch.***
- iv. ***that the drawing power/limits have been properly computed at the centralized office, including in consortium advances/multiple banking arrangements as conveyed to you for your ensuring that the account of the borrower is monitored at the Branch accordingly, without any defaults;***
- v. ***that adverse features pointed out by the Internal/concurrent/inspection audit of the centralized office as regards the appraisal, disbursement, sanction, documentation under their control, have been considered by you for classification of the account; and further that there are no unbanked post dated cheques held by the said office affecting the borrowers' accounts.***
- vi. ***that for the purpose of audit, the Branch will provide evidence at the Branch, as to the documents, security and guarantee aspects etc. to justify the classification of the amount reflected in the branch books as advances; and information sought, including on all large advances, in the manner required by us.***

The above information is critical to our examination/reporting on advances and may please be ensured at the Branch. A summary of the particulars of Advances as per Annexure II may be provided to us.

- b) A list of all Advances, each with outstandings above 5% of the total Advances Portfolio of the Branch or Rs. 200 lakhs whichever is lower, indicating their classification.

The year-end Status Report on each large borrower, may be given as per Annexure III, III.1 and III.2, which includes information as per the LFAR.

The aforesaid information, (which must also cover accounts adversely commented upon by Bank's internal/ concurrent auditors/ RBI inspection/ special audit/ credit audit/ previous statutory auditors- i.e. in the Reports as per refer Para I of this Annexure), may please be prepared keeping in view the applicable RBI circulars, and kept ready and be made available to us along with the Branch returns on 1.4.2010.

- c) **Please confirm whether:**

- the borrowers' accounts have been classified according to the latest RBI norms applicable for the year, with particular care being taken to identify Non-Performing Assets(NPA) [***classified as Sub-Standard, Doubtful or Loss assets***], and, in case a computerized package is being used for such an exercise, ***whether the statements are being prepared with the applicable latest parameters as per the prudential norms of the Reserve Bank of India***
- you have examined the accounts based on documentation security/guarantee/operations aspects etc. to determine the status **borrower-wise** and not account-wise for categorising the accounts, as above; and in case the loan processing, appraisals, sanction etc. is done at a centralized/designated office other than the branch, the branch has co-ordinated the information/data and tallied the branch data with that at such centralized location as also ensured that the sanction letters held are as per the latest documentation on record of the centralized processing cell. It may be confirmed that the number and amount of the advances accounts tally between the branch and such office, as a matter of control.
- the classification as at the year-end of borrowal accounts under consortium arrangements with other participating banks, has been done on the basis of operations of the accounts as per your Bank, without the necessity of relying on classification made by other participating banks; ***however, making known to us, the status of the borrower, if adverse, in case of other lenders.***

Annexure I to letter dated March , 2010 (contd.)

- the Borrower's classification at the Branch is uniform for the Bank as a whole, based on the applicable RBI norms, in case of sub-limits/ transferred limits and where advances are transferred from another branch.

d) Valuation/market value of tangible Assets:

Please confirm:

- whether in respect of the advances secured against tangible securities, the bank holds evidence **of existence and market value** of the relevant securities as at the year-end.
- whether the existence/market value is evidenced, based on physical inspections or otherwise through stock audit or other verification procedures applied nearer the balance sheet date; and the same may be produced for our examination.
- in case of NPAs, the periodicity of valuation, and the basis on which valuation is arrived at in respect of advances for the year under audit, particularly in case the security valuation reports/dates are older than one year.
- in respect of facilities of Rs.5.00 crores and above, whether stock audit has been got conducted.
- *whether and in which cases was the stock audit was required to be conducted.*

Please furnish us:

- **List of accounts where stock audit was required, but not conducted; and**
- **Cases in which stock audit was conducted where adverse features noticed have not been addressed and whether it has any effect on classification of any borrowers; and whether the same has been duly considered.**

e) Besides providing us information as per Annexure II, may we request you to provide us with a list of the:

- i) Top 25 NPAs and their status as at 31.3.2009 and 31.3.2010;
- ii) Borrowers identified/classified as NPAs during the period 1.4.2009 to 31.3.2010 and whether and extent to which unrealized income on such accounts is reversed/ derecognized
- iii) NPAs upgraded to Standard classification during the period 1.4.2009 to 31.3.2010, justifying reasons for the same; **also indicating the amount of any unapplied interest in such accounts (not debited/charged to the borrower);**
- iv) **Cases and Status of restructured accounts** (covered by Part B – Para 12, of the RBI Master Circular (DBOD.No.BP.BC. 17 /21.04.048/2009-10 dated 1-7-2009), including **those where proposals/ applications received are pending in the following categories:**
 - industrial units.
 - industrial units under the Corporate Debt Restructuring (CDR) Mechanism
 - Small and Medium Enterprises (SMEs)
 - all other advances.

Indicating for each category

- a. The name of the borrower
- b. Classification Status pre structuring (standard', 'sub- standard' or 'doubtful' category)
- c. Amount of advance requiring restructuring
- d. Date of the proposal/ application
- e. Date of disposal
- f. Sacrifice sought
- g. Sacrifice borne by the Bank
- h. FITL/WCTL out of interest in default, if any, and retained for provision
- i. Whether restructuring is eligible for special regulatory treatment
- j. Classification Status post re-structuring
- k. Normal Provision made for classification status on 31-3-2009 and 31-3-2010
- l. Provision made for sacrifice on 31-3-2009 and 31-3-2010
- m. Accounts downgraded for restructured proposals
- n. Accounts upgraded if considered satisfactory, with justification
- o. Whether Provision for sacrifice retained in separate account, with distinction for Standard/NPA accounts for appropriate disclosure in the balance sheet of the Bank

Annexure I to letter dated March , 2010 (contd.)

- v) Provision for classification (Refer also Para 4.2.5 of Part A of the master Circular dated 1-7-2009):
While making provision for normal classification the amounts (present value of principal and interest receivable as *per restructured loan terms*) considered as *Fully Secured and covered by the value of tangible security (primary as well as collateral), duly charged in the Bank's favour in respect of those dues, whether for this purpose* guarantees of the following types (which are otherwise intangible by nature) are treated on par with tangible security:
- bank guarantees and
 - State and Central Government Guarantees
- vi) Accounts where there was rehabilitation/ reschedulement/ restructuring, rephasing indicating in each case, **the number of times the same has been done**, and accounts in which the Bank needs to exercise its **right to recompense**, indicating the amount, also giving reasons for non-recovery thereof;
{The aggregate of such amounts due (party-wise), and the dates on which recoupment is to be made, may please be made known}.
- vii) Cases covered in Part B – Para 12, of the RBI Master Circular (DBOD.No.BP.BC. 17 /21.04.048/2009-10 dated 1-7-2009), **where pursuant to restructuring**, part of the principal and/or interest unrealized and/or in default was converted to investments by the Bank, including where borrowers were granted funded interest term loan facilities, and a confirmation as to whether the prudential norms have been followed for provisioning and income recognition. (It may also be confirmed that during the pendency of the application for restructuring of the advances, the usual asset classification norms have been made applicable, in terms of Part B – Para 11.1.2 of the said Circular)
(Refer also to Section II (v and VI) for information on accounts restructured)
- viii) List of Borrowers, where one time settlement was sanctioned, but there is a default in repayment or in compliance of the terms thereof;
- ix) Particulars of Advances where there is divergence of opinion between the Branch Management and the RBI/Inspection/ Internal/Concurrent audit Reports etc., indicating as to how this has been addressed by the Branch.
- x) The aggregate of the amounts of advances in the standard category which have the status of “critical amount due”; and whether any amounts comprised therein are over 90 days in default as at 31.3.2010.
A list of such accounts may be made available and quantified, for our review.
- xi) Borrowal accounts (in standard category), which have not been reviewed/ renewed for 180 days since the due date of their last renewal, or where there is a default on the part of the borrower in submission of stock statements, for a period of 90 days beyond any period of default/irregularity, **including that commencing prior to 31.3.2009**; and if so, whether such borrowers are classified as NPAs.
Particulars of accounts overdue for review/renewal between 6 months and 1 year, and those over 1 year may be provided.
- xii) accounts which do not fall within the definition of advances, such as interest free employee advances, but have been shown as such in the accounts of the Branch may be listed for our review.
- xiii) advances accounts which have been identified as of the nature of NPAs, and where, pending formal sanction of the higher authorities, the relevant amounts have yet to be reclassified/recategorised for the purpose of provision/write off. **This covers all accounts identified by the Bank or internal/external auditors or by RBI inspectors but the amount has not been written off wholly or partly.**
- xiv) accounts in which the Bank, or the Branch has itself recommended legal or other coercive action for recovery of dues and, where no such action has been taken up to the year -end against the borrowers. A list of such borrowers' accounts may be furnished to us, particularly if such accounts are in standard or sub standard category.
- xv) borrowal accounts in the “Standard” or “Sub Standard” category which are the subject matter of reference to BIFR/ DRT or in litigation.
- xvi) Advances to borrowers on the list of willful defaulters (as per the latest list and guidelines of the RBI).
- xvii) all accounts where the default resulted in WCTL, FITL, WCDL etc. and whether the advances would be NPAs but for such facilities.
- xviii) whether there are any agricultural loans where borrowers are entitled, as per the Govt. directions/ announcements or otherwise, to any relief/waiver up to the year-end; if so, the particulars thereof may please be given.

Annexure I to letter dated March , 2010 (contd.)f) Upgradation of classification:

Please let us have a list of borrowers' accounts (including projects under implementation and restructured accounts), **where classification previously made**, including as at the end of the previous year (31-3-2009), has been changed to a better classification, stating reasons for the same; and whether provision (including for the Interest sacrifice, if made), on the borrowal accounts, is sought to be reversed contrary to RBI's master circular dated 1-7-2009.

Please confirm whether Advances comprising Funded Interest, if already recognized as income, is fully provided for and not reckoned as income till realization/ redemption of securities. This would also apply to funded interest where the same is converted into securities (equity, debentures or other instruments), if held at the branch.

g) Devolved Letters of Credit(LCs)/ co-acceptances, and guarantees:

Please confirm:

- the precise procedure followed for accounting treatment of devolved, LCs.
- whether in categorising the borrowers' accounts as standard, substandard, doubtful or loss assets, the amount in default on account of devolved LCs has been reckoned, as per the applicable RBI norms.
- whether there are any devolved LCs upto the year-end.

Please also confirm whether the debits have been raised in separate distinct accounts of the borrowers or to the normal cash credit/overdraft accounts of the borrowers; and if not, whether these are considered for classification of the borrower.

For Information on guarantees invoked, and outstanding LCs/ co- acceptances. Refer format in Para 5(e) of Part 1 of the LFAR questionnaire.

h) Please confirm:

- i) Whether in computing the Drawing Power(DP), Sundry Creditors comprising unpaid for stocks, are reduced prior to application of margin as stipulated.

A list of cases where such reduction was not specifically made(**including by the leader bank in consortium**), may be made known and particularly where it has an adverse effect on the borrowers' status. Please review all cases of the stock confirmations/certificates issued by the borrowers to the Bank to determine if, and to the extent, the DP is required to be modified on this account and as may have a bearing on the limits/drawing power. This may also be evidenced for us.

- ii) In case of one time settlement proposals under consideration or where rehabilitation/rephasing is being done, whether the amount of sacrifice including anticipated sacrifice is provided fully.

Particulars of accounts where the borrowers have defaulted in their commitments after sanction of the compromise proposal, indicating classification of the amounts, may be made available.

The extent of provision/ adjustment, if any, made may be communicated.

- iii) Whether the Bank has a recovery policy in cases of compromise/ settlement/write off and is the policy available at the Branch.

Particulars of cases of compromise/settlement/write off involving write off/ waiver, each in excess of Rs.25 lacs, may please be furnished.

- iv) the particulars of any borrowal accounts with working capital limits of Rs.10.00 lacs and above, as also in case where audit is compulsorily required as per any statute, where the latest audited accounts are not on record.

- v) Compliance by the Branch of the RBI Master Circular (No.DBOD No.Dir.BC. 17/13.03.00 / 2009-10 dated 1-7-2009), relating to statutory and other restrictions as regards Loans and Advances. **In particular it may be confirmed as to whether, at the Branch:**

- there are any loans and advances against security of the Bank's own shares.
- there is any laid down procedure as regards identification of directors/ officers and their relatives and of directors of other banks for purposes of sanction of loans to them or to concerns in which directors are interested, as per the said circular.
- loans have been given to companies for buy back of their shares/securities.

i) Advances to share brokers/NBFCs:

Please confirm whether at the Branch, there are advances to:

- share brokers; if so, the total amount of limits granted and the aggregate advance due as at the year-end.
- NBFCs; if so please confirm whether the Reserve Bank of India has taken any adverse view as regards their registration or otherwise.

The status on advances to NBFCs may please be made known, along with their classification.

Annexure I to letter dated March , 2010 (contd.)j) Advances to Staff

Please confirm:

- the procedure with regard to Advances to Staff (interest/non-interest bearing), by the Bank, both in its capacity as a banker and as an employer; also whether such interest-bearing advances are being disclosed as Advances.
- the verification procedures followed in respect of Staff Housing Loans, and in particular, whether the original documents are held at the Branch and can be produced for our examination.

k) Credit Cards :

Please confirm the system followed at the Bank/Branch for recovery of credit card dues; and whether, and the extent to which, there are:

- any debits in the Branch on account of credit card facilities, and whether the amount is being reflected as part of the ADVANCES portfolio or as part of OTHER ASSETS;
- any arrears/ defaults in collection of such dues; **and**
- unadjusted debits up to the year end, against the Credit Card holders' Current/Savings Accounts.

8. Outstandings in Suspense/Sundries:

Please let us have a summary of the year-wise break up of amounts:

- debited to Suspense Account (or similar account) indicating the number of entries and the amount thereof, with reasons for non-adjustment of old/large/ unusual entries.

The amount of provision for doubtful debits may be confirmed.

- credited to Sundries/Sundry Deposit Accounts, indicating the reasons for non- adjustment of items included therein, particularly in respect of items which are over 3 years old.

(Information may please be provided in the formats as per the LFAR).

9. Provisions/Liabilities remaining unadjusted against corresponding advances:

Please confirm whether:

- provisions for known liabilities, up to the year end have been made (also, based on subsequent entries made); and
- there are any advances (e.g. Travel Advance) against such provisions/liabilities that require to be netted off for purpose of the financial statements.

If so, the same may be made known to us, to the extent unadjusted at the Branch.

10. Inter-branch/Office Accounts/Head Office Account:

- a) Please let us have a statement of entries (head-wise) which originated prior to the year-end at other branches, but were responded after the year-end at the Branch.

This statement may please be prepared upto a cut off date if stipulated by Head Office, and if not, upto the date of completion of audit but before submission of our report. (Format at Annexure VI may please be used and handed over).

- b) Date-wise details of debits in various nominal or other sub-heads relating to Inter-branch transactions, with reasons, particularly for large outstanding amounts, including those which are pending for over 30 days as at the Balance Sheet date.

c) Please confirm:

- **whether, and the extent to which, there are (under any sub-head), any debits outstanding over 6 months as at the year-end**, and whether provisions are being considered against the same at the Branch level;
- whether the Branch has effectively complied with the centralised Reconciliation Cell, all their queries in relation to unmatched entries.
Communications as are pending action, may be made available for our review.
- the number of old unadjusted entries and the aggregate amount as at the year-end comprising unlinked debits in respect of Drafts and TTs, MTs paid, which remain outstanding at the Branch; ***and whether, and the extent to which, provision is being considered for the same.***
- the period up to which the Reconciliation Cell has sent the statements of unmatched entries (head-wise).

11. Foreign Currency outstanding transactions:

If the system of conversion of foreign exchange entries has been decentralized, the precise year end adjustments made in the Branch Accounts (**head-wise**) may please be made known to us.

Please confirm whether all balances (including off-balance sheet items) outstanding in foreign currencies as at the year-end have been converted as at the year-end rates as applicable; or at the rate(s) as at the date(s) of origination thereof.

Evidence/basis of the rates as applied may be made available.

Annexure I to letter dated March , 2010 (contd.)

12. Contingent Liabilities etc.:

Please confirm whether:

- other than for advances, there are any matters involving the Branch in any demands/claims (whether statutory, regulatory, contractual or otherwise) in litigation, arbitration or other disputes in which there may be some financial implications, including claims from customers, fraud cases, for staff claims, municipal taxes, local levies etc. If so, these may be listed and evidenced for our verification, and it may be confirmed as to whether these are included as contingent liabilities in the Branch financial statements.

(Reference may also be made to the LFAR - Para II.3).

- guarantees are being disclosed in the Branch Balance Sheet, **net of cash margins and term deposits**, or otherwise; and whether, and the extent to which, expired letters of credit, and guarantees **where the claim period has also expired**, and obligations have ceased, continue to be disclosed in the Branch returns.

The amount of such expired obligations may be made known.

- other obligations assumed, e.g., in case of **Letters of comfort**; have been disclosed in the Branch returns; *and that, based on the related documentation, these do not comprise funded liabilities by or on behalf of the bank.*
- there are any outstanding contracts on capital account (including for fixed assets to be acquired/constructed). *Details thereof may be given.*
- there are any awards in arbitration/litigation or disputes involving any liability (*including based on any awards by the Banking Ombudsman*)

13. Interest Income/Expenditure:

- a) Please let us have a statement showing the rates of interest applicable during the year on various

- Advances Accounts
- Deposits Accounts

giving reference of the relevant circulars of the Head Office, and indicating the effective dates and periodicity of application of the interest rates; and evidencing that the computer programme was modified from such effective date(s).

Please confirm whether interest being debited at the end of each month on advances, is also being compounded for levy of further interest on a monthly basis. Rectification, in respect of interest if not properly charged up to the date of modification of the interest rates during the year, may please be advised to us, along with the changes/ modifications, if carried out in the software programme.

Please confirm whether the rates and changes therein are based on the Credit rating, as and where applicable and reflected in the accounts/ documentation.

b) Interest income, if recognized on certain advances:

Please confirm whether **and the extent to which**, you have recognized any interest as income on the following types of advances:

- On any additional finance under an approved restructuring package treated as 'standard asset', up to a period of one year where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', or in cases where the restructured asset does not qualify for upgradation at the end of the specified period (where the additional finance is to be placed in the same asset classification category as the restructured debt as NPA).
- On Central Govt. guaranteed advance, if NPA, but for reasons that the guarantee is not invoked or repudiated requiring the account to be treated as and retained in, Standard category.
- *In cases of restructured accounts, where the income recognized earlier, was, to the extent unrealized and converted to FITL and fully provided for, is reversed or treated as standard for further accretion of income.*
- in case documents under LC are not accepted on presentation or payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, whether the outstanding bills discounted continue to be classified as Standard and treated as 'performing'.

Annexure I to letter dated March , 2010 (contd.)

c) System of appropriation of recoveries in NPAs:

Please confirm the basis on which recoveries in NPA Accounts are being appropriated, in particular where recoveries are in excess of "Interest Suspense" – **whether priority is being given towards principal or unapplied interest.**

Please confirm whether there is any amount of "Interest Suspense" or "Unapplied Interest" or a **"right of recompense"** in borrowal accounts previously classified as NPAs but upgraded and classified as "Standard".

If so, details thereof may please be given to us.

d) As regards advances (including bills), whether:

- any income has been adjusted/recorded to revenue, contrary to the norms of income recognition issued by the Reserve Bank of India and/or Head Office circulars issued in this regard; and particularly where the chances of recovery/realisability of the income are remote.

- in respect of accounts classified as NPA during the year, *including as at 31.3.2010*, the income remaining to be realized (i.e. unrealized) for the preceding year is reversed to income or provided for; and that for the year 2009-10 such unrealized income is derecognised.

- any income has been recorded on Non Performing Accounts (including overdue bills) other than on actual **realisation** from the borrowers, or out of fresh limits sanctioned by the Bank.

- the reversal of interest income (i.e derecognised income), is recorded through "Interest Suspense" or similar account.

- unapplied interest has been computed and recorded upto date.

(Please confirm whether the contractual or any other interest rates are the basis of computation of unapplied interest).

- Unrealized fees, commission and other charges in respect of accounts identified as NPAs during the year, are reversed for all earlier periods.

Amount of income accrued, if any, as at 31.3.2010 on NPAs may be made known.

e) Please confirm whether interest adjustments on inter branch balances (as per the Transfer Price Mechanism) as communicated by Head Office, have been duly recorded in the Profit & Loss Account of the Branch.

Relevant evidence thereof may please be made available to us.

14. Commission on Govt. business

Please confirm whether at the Branch, income is being accounted on cash basis or on accrual basis. Income accrued upto 31.3.2010 but not claimed/ recorded/ received may please be confirmed to us, together with computation thereof.

Income Receivable by the Branch based on business done upto 31.3.2010 may be got computed and made known, if the same is required to be recorded at the Branch level.

15. Interest Provision:

Please confirm whether interest provision has been made on Term and Savings Bank account deposits in accordance with the applicable contractual rates and latest instructions of the Head Office; and whether interest provision is considered as accrued:

- and due on Term deposits {including FCNR(B) deposits}
- not due on Savings bank deposits, to the extent it is due but not applied to the individual accounts, as per the system of the Bank.

Correspondingly, if considered as due, whether Tax deduction at source has been made and deposited within the prescribed time with the Govt.

16. Employee/Staff Payments and benefits

Please confirm that all payments due to the Branch employees upto the year end, have been duly computed and recorded under the respective sub heads, including incremental liability towards arrears, if any, and to the extent not required to be provided for or adjusted except at Head Office.

Annexure I to letter dated March , 2010 (contd.)**17. Rent, Rates and Taxes**

Please confirm that the rents, rates and taxes are recorded up to the year end, based on:

- rent/lease agreements for the time being in force and liability has been considered on the basis of claims/demands *and contractual enhancements due*;
- municipal taxes and levies are adjusted/provided up to the year-end, based on the demands accepted; and
- in case of disputed liabilities, if any, the related contingent liability has been disclosed.

18. Penalties/fines etc:

Please confirm whether any fines or penalties have been imposed on the Branch, or incurred or paid by the Branch during the year as arising out of any defaults to meet statutory or regulatory requirements or otherwise. If so, the particulars thereof may be made known; as these would require separate disclosure in the financial statements of the Bank and for consideration in the Tax Audit Report under Section 44 AB of the Income tax Act 1961 (Form 3 CD).

19. Balance(s) with other Banks(including RBI/SBI):

Please confirm the status of reconciliation as at 31.3.2010, of accounts with other banks in your Branch; as also whether there are any entries arising therefrom as have effect on revenue up to 31.3.2010, which remain to be adjusted till the year end. For this purpose you may let us know how the pending items in reconciliation were adjusted after 31.3.2010, and whether these are considered in the Memorandum of Changes (MOCs).

In case a currency chest is attached to the Branch, whether all deposits into and withdrawals of currency up to the account year end, have been duly communicated on a value date basis to the linked branch of the Bank; unless the Branch itself maintains the account of Reserve Bank of India to effect the necessary adjustments. In such a case, whether, the inward currency chest slips from other linked offices are recorded on a value date basis till the year end, unless covered by MOC.

20. Frauds etc.:

Please confirm whether for the purpose of provisioning, the relevant particulars have been prepared at the Branch and whether :

- there are any frauds reported/recorded upto 31.3.2010;
- there are any transactions or events involving cases of suspected frauds;
- there are any cases of vigilance or similar enquiry, or financial claims/potential claims that may arise, from customers/others in respect of the Branch. The relevant records of these may please be made available.
- any enquiries have been initiated for any suspected frauds/aberrations.
- the Branch has complied with the reporting requirements of RBI and communicated the same as per the requisite formats, including where central investigating agencies have initiated criminal proceedings or where the RBI had directed that a matter be treated as fraud.

Recommendations of the Mitra Committee – Bank Frauds

While drawing your attention to the contents of the SA 240 -*The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*, issued by the Institute of Chartered Accountants of India, particularly in that the responsibility for the prevention and detection of fraud and error rests with the management through the implementation and continued operation of an adequate system of internal control, we would request you to confirm whether, in relation to the operations/activities of the Branch, anything has come to light which is in the nature of a fraud, any fraudulent activity, or any matter susceptible to fraud or foul play, which should receive our attention; and particularly, if there is anything which invokes, or is the subject matter of any vigilance, enquiry, investigation or examination as regards any transaction or event that is suggestive of attracting compliance or for reporting to the competent authorities within the Bank, or to the regulatory authorities.

This would include matters that could arise out of inadequacies in, or absence/breach of the laid down, internal control systems and procedures (both accounting and administrative).

Your attention is drawn to the RBI Master Circular DBS. FrMC. BC. No. 1/23.04.001/2009-10 dated 1-7-2009 relating to **Frauds – Classification and Reporting**.

Annexure I to letter dated March , 2010 (contd.)

21. Asset Liability Management:

Please let us have, duly authenticated, the financial information regarding the additional disclosures to be made as at 31.3.2010, as required by the Reserve Bank of India, indicating the procedure followed to arrive at the financial data.

Instructions from the Controlling Authority, in this behalf, may be made known.

22. Long Form Audit Report-Branch response to the Questionnaire:

In connection with the Long Form Audit Report, please let us have complete information, and evidence, as regards each item in the questionnaire, to enable us to verify the same for the purpose of our audit.

Reference may also be made to the important items as per **Annexure VII**.

23. Tax Audit in terms of section 44AB of the Income-Tax Act,1961:

Please let us have the information required for Tax Audit under section 44AB of the Income-tax Act, 1961 to enable us to verify the same for the purpose of our report thereon.

24. Compliance of Ghosh and Jilani Committee recommendations

Please confirm whether the Branch has duly complied with the requirements of the Ghosh and Jilani Committees and whether such compliance has been got verified from the Bank's Inspection Division and/or the Concurrent Auditors.

It may be confirmed as to whether there are any adverse observations in respect of any requirements that may also have bearing on the financial statements of the Branch; and if so, these may please be made known to us.

25. Consideration of laws and regulations for the purpose of the audit of financial statements:

Please confirm as to whether the Branch is maintaining a codified list of the related laws and regulations applicable to the Bank in respect of its operations/activities to cover all transactions and events, with which it is concerned; and whether the Branch management has come across, or is aware of anything that needs to be brought to our notice for our consideration or anything suggesting that there is fundamental effect on the branch state of affairs or operations on account of non-compliance of these.

26. Other Certification

Please let us have, duly authenticated, information as regards other matters which, as per the letter of appointment, require certification/validation.

The certificates relate to the following (besides the data as the letter of appointment, and assistance may be sought from the Annexures indicated):

- a) DICGC
- b) PMRY
- c) 12 odd dates data for verification of SLR (Refer Annexure A VIII)
- d) Additional Disclosures
- e) Implementation of the Ghosh and Jilani Committee recommendations
- f) Movement Chart of NPAs and Provision of NPAs (Refer Annexure A II)
- g) Information relating to restructuring etc. undertaken during the year

27. Transactions and events after the Balance sheet date

Please let us have a statement of any significant transactions or events accruing after the Balance sheet date but which relate to the period prior to 31-3-2010, ***whether or not yet recognized or recorded in the accounts of the Branch***. This would include items of income or expense or capitalization etc. relating to the period prior to the year end. (particularly also, if these are reported in the inspection/internal/concurrent audit reports relating up to March 2010), which need to be incorporated in the MOC. This may kindly be communicated to us.

28. Investments:

In case the Branch holds any investments on behalf of the Bank:

- a) these may be produced for physical verification and/or evidence of holding the same be made available.
- b) stock of unused security paper stationery/numbered forms like B/Rs, SGL Forms etc. may please be produced for physical verification.

Annexure I to letter dated March , 2010 (contd.)

- c) it may be confirmed whether income accrued/collected has been accounted as per the laid down procedure, and is not reckoned as income of the Branch .

The procedure may please be confirmed to us.

Information duly completed in respect of Paras 1 to 28 should be made available simultaneously with the returns/ statements/ schedules, as committed by the Head Office to be given by the Branch on 1.4.2010.

CHARTERED ACCOUNTANTS

BANK _____

BRANCH _____

Annexure II -Information on Advances (Amt- Rs. In ‘000)

I. CLASSIFICATION OF ADVANCES AS COMPARED TO THE PREVIOUS YEAR-END

Particulars	As at 31.3.2010		As at 31.3.2009		Increase/ (Decrease)	Provision	
	No	Amt (Rs)	No.	Amt.(Rs.)		2010	2009
A. STANDARD							
-SME/Direct							
Agriculture							
(0.25%)							
- CRE							
(1.00%)							
-Others							
(0.40%)							
Total (A)							
B.SUB-STANDARD							
C.DOUBTFUL							
D.LOSS							
E.Total(B+C+D)							
TOTAL (A+E)							

II. PARTICULARS OF AND MOVEMENT IN NPAs AND PROVISIONS

	GrossNPA(Rs.)	NetNPA(Rs.)	Provision(Rs.)
As at the beginning of the year			
Additions during the year			
Less: <u>Deductions</u>			
a) Recoveries			
b) Write Off			
c) UpgradationWrite back			
d) Others (Specify)			
Balance at the year-end			
	=====	=====	=====

III Interest etc. (ACCRUED BUT NOT EARNED) on NPAs

Particulars	31.3.2010		31.3.2009	
	No. of Accounts	Amount (Rs.)	No. of Accounts	Amount (Rs.)
A. Interest				
Interest Suspense				
Unapplied Interest				
Total (A)				
B. Right of Recompense				
TOTAL (A+B)				

IV . LOANS SUBJECTED TO RESTRUCTURING/REHABILITATION/RESCHEDULEMENT/RENEGOTIATION

Category	2009-10				2008-09			
	No. of Accounts		Amount(Rs.)		No. of Accounts		Amount(Rs.)	
	CDR	Others	CDR	Others	CDR	Others	CDR	Others
Standard @*								
Sub –Standard*								
Doubtful *								
	=====	=====	=====	=====	=====	=====	=====	=====
	=====	=====	=====	=====	=====	=====	=====	=====
Amount of sacrifice @ FITL/WCTL Component								

[*restructuring under CDR to be separately stated for each category]

BANK _____ BRANCH _____

A

Annexure II -Information on Advances (contd.)

V. STATEMENT OF ADVANCES UNDER RESTRUCTURING FOR WHICH APPLICATIONS/PROPOSALS ARE PENDING AS AT 31-3-2010 (Amt- Rs. In '000)									
Particulars	Industrial units.		Industrial units under the Corporate Debt Restructuring (CDR) Mechanism		Small and Medium Enterprises (SMEs)		Other advances.		
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
Standard									
Sacrifice sought (A)									
Sacrifice provided(B)									
FITL/WCTL(C)									
Sub –Standard									
Sacrifice sought(A1)									
Sacrifice provided(B1)									
FITL/WCTL (C1)									
Doubtful									
Sacrifice sought (A2)									
Sacrifice provided(B2)									
FITL/WCTL (C2)									
SACRIFICE SOUGHT									
STANDARD (A)									
SUBSTANDARD(A1)									
DOUBTFUL(A2)									
Total									
SACRIFICE PROVIDED									
STANDARD(B)									
SUBSTANDARD(B1)									
DOUBTFUL(B2)									
Total									
FITL/WCTL Provision									
C									
C1									
C2									
Total									

A

BRANCH_____

BANK _____
Annexure II - Information on Advances (contd.)

VI. STATEMENT OF ADVANCES UNDER RESTRUCTURING (Below Rs.1.00 Crore each) FOR WHICH APPLICATIONS/PROPOSALS ARE PENDING AS AT 31-3-2010
(Amt- Rs. In '000)

[illegible]

Branch In charge

_____BANK: _____ ZONE : _____ BRANCH : _____
ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010
(Each column needs to be filled in completely and adequately; and in case space is inadequate use inverse side)

1. BORROWER:

a) Name of the Borrower	:											:Group		
b) Address	:													
c) Constitution	:	Company		:Partnership		:Sole Prop		:Other(specify)						
d) Nature of Business	:													
e) Other Units in the same group	:													
f) - Name(s) of proprietor/partners/Directors	:													
- Name of Chief Executive, if any	:													
g) Whether Borrower or constituents thereof are on the list of willful defaulters of RBI	:	No		Yes	: If Yes, give details:									
h) <u>Credit Facilities:</u>	:													
Nature of facilities and limits (Rs.in lakhs)	:	Fund Based(Rs.)					Non Fund Based (Rs.)							
		Term Loans	CC/OD	Bills	Others	Total	LCs	Guarantees	Total					
Date of Sanction and authority														
Due date of renewal, and authority		: Actual date of renewal												
Particulars of latest balance confirmation														
Total exposure of the Branch (Rs.in Lakhs)		Borrower (Rs.)					Group (Rs.)							
i) Whether project under Implementation	:	No	Yes	: Since	Category as per RBI master circular					I	II	III		
j) Give details, if the account has been subject to:	:	Sacrifice:*										Yes	No	
-Rehabilitation /Restructuring(including as per BIFR)	:	Amount : Rs.												
-Rephasement of terms	:	Right of recompense:*										Yes	No	
		Amount : Rs.												
		*Basis to be enclosed												

_____BANK: _____ZONE : _____BRANCH : _____

ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

1.**BORROWER:**

k)	Review of Facilities		Due Date :	Actual Date	Regular Review	Yes	No	:Short Review	Yes	No
l)	Credit Rating applicable during the review period	:	:Previous Period:							
m)	General level of compliance by borrower	:	Satisfactory	:Unsatisfactory	:Remarks:					

2. **NATURE OF ADVANCE/ FACILITIES:**

In case of Consortium/ Multiple facilities, the following information is confirmed:

	Name of the Bank		Bank’s Share(Rs.in Lakhs)			
		%	Term Loans (Rs)	Cash Credits/ overdrafts(Rs)	Bills facilities (Rs)	Non Fund Based(Rs)
A <u>CONSORTIUM:</u>						
<u>Participating Banks and their shares</u>						
i) Lead Bank						
ii) Other Banks(<i>Specify</i>):						

B **MULTIPLE BANKING:**
Particulars of Other Banks @
(evidence thereof to be enclosed)

Note: @ Diligence Report/certificates to be received in terms of RBI Circular **DBOD.No. BP.BC.110/08.12.001/2008-09 dated 10-2-2009** must be sought and attached. These are to be examined to ensure that there are no adverse observations/comments by the person certifying these. The LFAR must contain the names of the companies in respect of which certification has not been obtained from a C.A./Co. Secretary/Cost Accountant.

_____BANK: _____ZONE : _____BRANCH : _____

ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

3. SANCTION (Terms and Conditions)

Security					(Rs.in lakhs)	
Primary	*Value (Rs.)	Margin (Rs.)	Net Value(Rs.)	Collateral	Valuation date	Value (Rs.)
a) Stocks/Inventories (*net of unpaid for stocks)						
b) Book Debts (*current debts chargeable)						
c) Others (Specify)						
Total				Total		

(Value and Margins as per working on the inverse side)

b) Other major Terms and conditions:

- i)
- ii)
- iii)
- iv)
- v)
- vi)
- vii)

c) **Guarantor(s)** _____ Central Govt. ☐ : *State Govt. ☐ : Banks ☐ :Financial Institutions ☐ :Others ☐

*whether invoked _____ Yes/ No _____

BANK:

ZONE :

BRANCH :

ANNEXURE-III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

a) **Documents Obtained:**(Tick as appropriate)

DPN	Yes	No
Letter of Hypothecation		
Mortgage Deed [Equitable/Registered]		
Agreement for loan		
Letter of Guarantee		
Legal Opinion		
Non Encumbrance Certificate		
Registration of Charge (in case of Company) or evidence thereof		

Others (Specify)

b) **Documents required and pending completion** (Specify with reasons):

c) **Furnishing of copy of the Loan Agreement(s) to the Borrower** (Refer RBI Circular DBOD.Leg.BC 28/09.07.005/2007-08 dated 22.8.2007):

Date(s) of Sanction of the Loan(s)

Date(s) of disbursement of the Loan(s)

Date of furnishing of the copy(ies) of the Loan Agreement to the Borrower

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_____BANK: _____ZONE : _____BRANCH : _____
ANNEXURE-III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

ADVANCE PORTFOLIO STATUS : (Figures – Rs. in lakhs for all columns)						
Facility	Limit (Rs.)	Outstanding (Rs.)	*Margin on primary security		Drawing Power (Rs.)	Outstanding on 31.3.2010 (Rs.)
			%	Amount (Rs.)		
<u>Fund based</u>						
CASH CREDIT						
TERM LOANS						
WCTL						
FITL						
Others						
BILLS						
OTHERS						
Total			xx			
<u>on Fund Based</u>						
Letters of Credit						
Inland						
Foreign						
Letters of Guarantee						
Total			xx			
c) Amount at credit unappropriated			Rs.			Rs.
d) Interest, if any, held in “Suspense Account”			Rs.			Rs.
e) Unapplied Interest			Rs.			Rs.
f) Bank’s right of recompense			Rs.			Rs.
(# as at 31.3.2009)						
Invoked/ Devolved						

[* after deducting unpaid stocks and debts older than stipulated period]
@ Overdrawn amount must be with reference to lower of the limit or drawing power
** Segregate principal and interest amounts in default, indicating separately, if any amount is over 90 days overdue.

_____BANK: _____ZONE : _____BRANCH : _____

ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

6.A CLASSIFICATION: (as per RBI norms) (Tick as appropriate) @ State also whether D1,D2,D3: # based on unsecured/secured exposures(state on inverse)		*STANDARD		#SUBSTANDARD		DOUBTFUL@		LOSS	
		Bank	Auditor	Bank	Auditor	Bank	Auditor	Bank	Auditor
a) as at the year-end (31.3.2010)									
b) as at the previous year-end(31.3.2009)									
c) as at half year-end (30.9.2009)									
d) Date of Identification as NPA by Bank		(iv) Other Reasons for Identification as NPA							
e) Reasons for identification as NPA (per RBI norms):									
i) Default in servicing of 90 days or more		Yes	No						
ii) Accounts not reviewed/limits not renewed for 180 days or more		Yes	No						
iii) Funded Interest (FITL)-projects under implementation		Yes	No						
f) Whether classification is as per guidelines of the Controlling Authority		Yes	No						
6.B ADVERSE OBSERVATIONS IN LATEST REPORTS									
Concurrent Auditor									
Internal Inspection									
RBI Inspection Reports									
Other Reports(including Special Audit/Credit Audit)									
*State reasons for upgradation of Account if NPA earlier.									
-Whether upgradation is in respect of project under implementation:									
If so, pre-upgradation classification									
				Substandard		Doubtful :		D1	D2
								D3	

_____BANK: _____ZONE : _____BRANCH : _____

ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

7. OPERATIONS:

(Rs. – Actual amounts rounded off)

a) *Term loans:		<u>Instalments(Rs.)</u>				<u>Interest(Rs.)</u>			
	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	4 th Qtr.	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	4 th Qtr.	
Due									
Realisation									
Interest in arrears: Rs. _____ (Period of arrears _____): Installments in arrears: (No. _____)Rs. _____ (Period of arrears _____)									
[* If more than one Term Loan, please give information for each on the inverse side in the same format]									
<u>Bills purchased/discounted:(Total outstanding as at year end – Rs. _____)</u>					Bills overdue during the year in excess of 90 days				
Bills overdue* Over 90 days -Details overleaf Rs. _____ Interest accrued and accounted on overdue Bills Rs. _____ Rs. _____					Yes No If yes, particulars on inverse				
- Other Current Bills									
c) <u>Cash Credit/Other facilities:</u>									
Account No.	Facility	Limit (Rs.)	Drawing Power (Rs.) @	Outstanding (Rs.)	Outstanding more than D P (Rs.)	Interest (Rs.)			
						Due	Realised	Unrealised for more than 90 days	
	- Cash Credit								
	- Devolved L/Cs								
	Total								
	Other facilities								
(@ to be worked out net of trade creditors in relation to stocks and margins as stipulated)									
d) Unrealised interest accrued upto 31.3.2010, if NPA according to Bank/Auditor: Current year Rs. _____ : Previous year Rs. _____									
e)Right of Recompense, if any, in case of restructuring and sacrifice in the past: Current year Rs. _____ : Previous year Rs. _____									

_____BANK: _____ZONE : _____BRANCH : _____
ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

e) Particulars/Dates of Irregular Drawings* (Rs.in Lakhs)

Date	Limit (Rs.)	Drawing Power (Rs.)	Outstanding (Rs.)	Excess over		Reasons for Excess	Whether excess drawings reported to the controlling Authority	Date of approval by controlling Authority
				Drawing Power (Rs.)	Limit (Rs.)			

* In case of computerized branches information is available/corroborated from **exceptional daily reports** generated through the system

f) Summary of Account/Summations: (Rs.in Lakhs)

<u>Cash Credit(Rs.)</u>				<u>Overdraft (Rs.)</u>	<u>Others(Rs.)</u>	<u>Remarks</u>
Opening Balance –Debit(1.4..2009)						
Add: <u>Debit Summations</u>						
i) Interest						
ii)Others						
Total						
Less: <u>Credit Summations</u>						
<u>Balance outstanding debit as at 31.3.2010</u>						

_____BANK: _____ZONE : _____BRANCH : _____
ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

				(Rs.in Lakhs)	<u>Nature of Evidence</u>
8.	<u>SECURITY/GUARANTEE:</u>				
a)	<u>Evidence on record for existence and Market value of Security:</u>				
	<u>Primary:</u>	<u>Date</u>	<u>Particulars</u>		
	<i>(indicating date of the latest stock statements/book debts etc.)</i>		a) Stocks (net of unpaid stocks) b) Book Debts (current debts) c) Others (specify)		

<u>Collateral</u>				
(Date of last valuation, Nature of encumbrances, if any)				
iii) Insurance coverage.	Whether adequate		Any other Adverse features	
	Yes	Yes	No	No
Comment on inadequacy in Insurance coverage and other adverse features.				
iv)Physical Inspection of securities charged as security:		Date of latest inspection		Date of last Stock Audit Report

- Reasons for non-inspection(if more than 6 months)

-Major uncomplied adverse observations in Inspection/
Concurrent audit/stock audit/credit audit on securities

_____BANK: _____ZONE : _____BRANCH : _____
ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

v) <u>Guarantees</u>	<u>Date of Guarantee</u>	<u>Amount</u>	<u>Guarantees (Rs.in Lakhs)</u>		*Remarks
<u>Particulars</u>		<u>(Rs.)</u>	<u>*Invoked(Rs.)</u>	<u>Repudiated(Rs.)</u>	
Central Govt.					
State Govt.					
Banks					
Financial Institutions					
Others(Specify)					
* Besides other observations, reasons for non invoking of guarantees to be given in the remarks column					
b) Exceptional reports, if any on documentation, operations, security/guarantee aspects (whether and when reported to the supervisory / monitoring authority), or where the same is pending , or where the same is pending approval/ authorization)					
c) Latest audited statements (including audit report, accounting policies and notes), whether on record -Whether there are any qualifications in the Notes/Audit Report having impact on the financial statements (State effect thereof) - Whether Cost Audit report(if applicable) received					
d) Critical Information Whether any critical information sought from the borrower remains uncomplied.					

_____BANK: _____ZONE : _____BRANCH : _____
ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010

OBSERVATIONS OF BRANCH MANAGEMENT (including responses to adverse observations in Reports stated at **Item 6 B** above)

- Documentation
- Operations
- Security/ Guarantee
- Any other matter
- Overview of the borrowal account and its operation

- 10. COMPLIANCE OF TERMS AND CONDITIONS OF SANCTION (Annexure III.1)
- 11. KEY FINANCIAL INDICATORS FOR THE LAST 3 YEARS AND PROJECTIONS FOR THE YEAR (Annexure III.2)

Signature of Branch Incharge :

K.C. KHANNA & CO., CHARTERED ACCOUNTANTS, NEW DELHI

ANNEXURE –III.1 -OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010
COMPLIANCE OF TERMS AND CONDITIONS OF SANCTION

Terms and Conditions		Compliance
i)	Primary Security	
a)	Charge on primary security	
b)	Mortgage of fixed assets	
c)	Registration of charges with Registrar of Companies	
d)	Insurance with date of validity of Policy	
e)	Stock Audit whether conducted-if so when	
ii)	Collateral Security	
a)	Charge on collateral security	
b)	Mortgage of fixed assets	
c)	Registration of charges with Registrar of Companies	
d)	Insurance with date of validity of Policy	
e)	Basis and date of last valuation	
iii)	Guarantees – Existence and execution of valid guarantees	
iv)	Asset coverage to the branch based upon the arrangement (i.e. , consortium or multiple-bank basis)	
v)	Others:	
a)	Submission of Stock Statements/ Quarterly Information Statements and other Information Statements.	
b)		
c)	Whether latest audited accounts obtained and analysed including considering effect of qualifications therein.	
d)		
e)	Last inspection of the unit by the Branch officials: Give the date and details of errors/omissions noticed	
	In case of consortium advances, whether copies of documents executed by the company favouring the consortium are available	
	Any other area of non-compliance with the terms and conditions of sanction.	

Note: In case of non/unsatisfactory compliance, action taken by the Bank may be indicated on the inverse side for each item.
(Branch In charge)

Borrower : _____ BANK _____ ZONE: _____ BRANCH : _____

ANNEXURE III.2- Key financial indicators for the last two completed years and projections

Indicators	Audited Accounts (year ended)		Projected for year ended 31.3.2010
	31.3.2008	31.3.2009	
Turnover			
Increase in turnover % over previous year			
Profit before depreciation, interest and tax			
Less: Interest			
Net Cash Profit before tax			
Less: Depreciation [*straight line ☐ W.D.V ☐] (*tick as applicable)			
Less: Tax			
Net Profit after Depreciation and Tax			
Net Profit to Turnover Ratio			
Capital (Paid-up)			
Reserves			
Net Worth			
Turnover to Capital Employed Ratio			
(The term capital employed means the sum of Net Worth and Long Term Liabilities)			
Current Ratio			
Stock Turnover Ratio			
Total Outstanding Liabilities/ total Net Worth Ratio			
In case of listed companies, Market value of shares during the year:			
a) High			
b) Low			
c) Closing			
** Earning Per Share (Face Value Rs. _____)			
Whether the accounts were audited? ☐ No ☐ Yes, upto _____			
If yes, are there any audit qualifications@			
** To be based on common denominator of face value of shares :State whether	basic:	Diluted	

@ Audit qualifications may also be stated against item 8 (c) of the form

Branch Incharge

BANK AUDIT (2009-10)

ANNEXURE IV – INFORMATION ON PENDING RESTRUCTURING PROPOSALS FOR PROVISIONING

A. PENDING PROPOSALS WHERE THE BOOK OUTSTANDINGS ARE LESS THAN RS. 1.00 CRORE EACH

NAME OF BORROWER	AMOUNT OUTSTANDING	Standard Classification (Provision to be shown as part of Schedule 5 – Other Liabilities and Provisions)			Sub Standard Classification (Provision to be shown as deduction from Advances in Schedule 9 in the Balance Sheet)			Doubtful Classification (Provision to be shown as deduction from Advances in Schedule 9 in the Balance Sheet)		
		Normal	Sacrifice	FITL	Normal	Sacrifice	FITL	Normal	Sacrifice	FITL

- **Normal Provision** will be as per the prudential norms applicable to each classification status as determined at the year end
- **Sacrifice** shall be @ 5% as per the policy adopted by the Bank and as permitted by RBI till 31-3-2011 on amounts comprising book balances which in the aggregate for all facilities, are below Rs.1.00 crore
- **FITL** if sought for in the proposal would have to be estimated based on request or based on policy of the Bank in similar cases

B. PENDING PROPOSALS WHERE THE BOOK OUTSTANDINGS ARE MORE THAN RS. 1.00 CRORE EACH

NAME OF BORROWER	AMOUNT OUTSTANDING	Standard Classification (Provision to be shown as part of Schedule 5 – Other Liabilities and Provisions)			Sub Standard Classification (Provision to be shown as deduction from Advances in Schedule 9 in the Balance Sheet)			Doubtful Classification (Provision to be shown as deduction from Advances in Schedule 9 in the Balance Sheet)		
		Normal	Sacrifice	FITL	Normal	Sacrifice	FITL	Normal	Sacrifice	FITL

- **Normal Provision** will be as per the prudential norms applicable to each classification status as determined at the year end
 - **Sacrifice** shall be estimated based on the request as per application, pending disposal, or as per the policy adopted by the Bank in respect of similar proposals
 - **FITL** if sought for in the proposal would have to be estimated based on request or based on policy of the Bank in similar cases
- (Note: Provision is recommended to be considered for potential losses, as the borrower's request would be based on the weaknesses in the accounts that may cause the account to become in default or potentially not serviced on the terms and conditions applicable to the advance)

BANK _____ Zone: _____ : Region _____ : Branch _____

A

ANNEXURE V - STATEMENT OF MATURED/OVERDUE DEPOSITS AS AT 31-3-2010

Particulars	Rupee Deposits		Foreign Currency Deposits @	
	No.	Amount(Rs)	No.	Amount(Rs)
Opening Balance at the beginning (A)				
Additions during the year (B)				
Total (A+B)				
Less: Deposits renewed/repaid (C)				
Overdue deposits as at year-end(A+B-C)				
No. and Amount of NRNR Deposits, if any, included above				
Break-up of overdue deposits(period-wise)				
Less than 1 year				
1-3 years				
3-5 years				
5-10 years				
Over 10 years				
Receipts held in physical custody by Bank				

@Converted() Not Converted (), based on the rates of exchange at the year-end.

BRANCH MANAGEMENT

BANK BRANCH AUDIT (2009-10)

ANNEXURE VII - LFAR REQUIREMENTS DESERVING SPECIAL ATTENTION

- a) Balance confirmation certificates and reconciliation statements with banks indicating reasons for unadjusted old entries outstanding between 6 months and 1 year, and those over 1 year old.
- b) Responses to Para I.4 of the questionnaire, if and to the extent applicable to the branch.
- c) Status of “large advances” in the light of the reporting requirements as per Item I.5 of the questionnaire.
(Large Advances, for this purpose, are defined to be those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs.2 Crores, whichever is less).
- d) Data as per the format in Item I.5 (d) (xii) of the questionnaire, relating to (i) credit guarantee claims, and (ii) subsidies.
- e) Particulars of cases of compromise/settlement and write off involving write offs/ waivers in excess of Rs.50 lakhs.
- f) Information [as per item I.5 (e) of the questionnaire], in a tabulated form as regards guarantees invoked, letters of guarantee and Co-acceptances.
- g) Information as per Item I.6 (b) of the questionnaire
- h) Details as per the format [II.2(i) of the questionnaire]
- i) List of contingent liabilities not acknowledged as debts in response to item II.3 of the questionnaire.
- j) Statement of divergent trends in major items of income/ expenditure as compared to the previous year with explanation thereof. Items comprising interest earned on advances and that paid on deposits may preferably be computed on the basis of monthly average advances/ deposits for the branch and the current and previous year for comparison.
- k) Note on areas of computerisation and Bank’s instructions/guidelines covering matters in Item IV. (1)(b) of the questionnaire.
- l) Statement in response to Item IV. 2 of the questionnaire.
- m) List of outstanding debits, if any, in H.O. Account in respect of Inter-branch transactions.
- n) Inter-branch Adjustments
 - o Particulars/status of unresponded/ pending/ uncomplined queries or communications from the designated offices as regards unmatched items in Inter-branch Adjustments.
 - o List/status of outstanding old/ large entries at debit comprising Inter- branch Items.
- o) Statement of particulars of frauds discovered during the year, as per the prescribed format.
- p) Evidence of reconciliation of records of fixed assets, (with a confirmation as to their updation) with physical inventories last taken.
- q) Documents of title of the branch premises, if maintained at the Branch, for production to auditors.
- r) Information/ responses to the questionnaire, if a specialized branch
(Refer Appendix – Item A.3 in particular).
- s) Information in the structured format in response to Item B of the Appendix covering advances, each in excess of Rs.2 crore. (Refer **Annexure III**)
- t) Information in respect of borrowers pursuant to Item C of Appendix.
- u) Details of Inward/outward clearing as per the prescribed format
(per D2 of the Appendix).

(Text on letter Head)

B

(Text of letter recommended for being addressed to the Branch)

BY HAND

March 29, 2010

The Branch Manager,
_____ Bank,

Dear Sir,

Re: Audit of Accounts for 2008-2009.

We are deputing our team headed by Mr. _____ in connection with the verification of the following, at the close of business on 31.3.2010 (Wednesday) :

A. Cash balances etc.

- a) Cash in hand (including with tellers); b) Cash at sub offices
- c) Cash in ATM(s), if operated/controlled; and if any with authorized agencies for stuffing;
- d) Petty Cash/imprest balances; e) 5.Postage in hand; f) Tokens, if any
- g) Foreign Currency, if any.

In connection with the above, please ensure that you will be getting the verification done simultaneously, and at all locations, of the balances for the aforesaid items and produce for our verification the following:

- a) Foreign Currency parcels, if any, lying at the Branch.
- b) Sealed covers containing cash, if any.
- c) Petty Cash and imprest balances held with various officers.

B. Security Paper Stationery/ Forms (Unused/ blank) and those issued, but in hand

- 1. We would be undertaking the physical verification of ***the unused/blank security paper stationery/ forms*** lying at the branch, including for the following:

- a) Time/Term Deposits; b) Deposits under various schemes; c) Travellers' Cheques;
- d) Drafts; e) Pay Orders/Banker's Cheques, Gift cheques, etc; and
- f) Cheque Books/Withdrawal Slips

We would request you to keep ready, a list of stock of all stationery in hand of the nature and type referred to above, so that verification thereof is expedited; and further ensure that the relevant registers are upto date to enable us to examine the balances therein.

- 2. Instruments of the above nature issued but lying in physical custody of the Branch may be listed and got verified

C. Bills for Collection/Purchased:

All bills in hand (for collection as well as purchased) may be listed out and got physically verified.

D. Fixed Deposit Receipts in physical custody of the Branch, in respect of Deposits received or renewed (refer Para 6 of Annexure I Section A of our earlier letter):

Such undespached Receipts in the physical custody at the Branch may be produced.

E. Your formal confirmations for our record:

Upon completion of the exercise involving physical verification as aforesaid, we would request you to let us have a confirmation of the balances as at the close of the business as at the year-end duly signed by the authorised signatories.

F. External Confirmations

May we request you obtain and to let us have, balance confirmation certificates in respect of:

- a) balances with other banks as at the year-end along with reconciliation statements, in evidence of outstandings with such banks (including, if any, with the Reserve Bank of India);
- b) borrowings, if any, recorded at the Branch (banks/ institutions)

We expect these certificates/ reconciliation statements, duly authenticated, to be handed over along with the Branch returns.

We shall be thankful for your co-operation.

Yours faithfully,

CHARTERED ACCOUNTANTS

BANK BRANCH AUDIT PROGRAMME (2009-10)

C

1. Name of the Bank : _____ Branch: _____

2. Year Ended : 31st March, 2010

3. Audit In-charge : _____

4. Audit Assistants:	Name	Signature
	a) _____	_____
	b) _____	_____
	c) _____	_____

5. Audit commenced on: _____ Completed on _____

6. Submission of Reports

Date of Submission

- | | |
|--|-------|
| a) Statutory Audit Report | _____ |
| b) LFAR | _____ |
| c) Tax Audit Report | _____ |
| d) <u>Certificates:</u> | |
| i) DICGC Claims | |
| ii) Subsidy claims under Prime Minister's Rojgar Yojna for Unemployed Youth (PMRY) | |
| iii) Data on 12 odd dates for verification of SLR | |
| iv) Exposure to Sensitive Sectors | |
| v) Implementation of the Ghosh/ Jilani Committee recommendations | |
| vi) Movement chart of NPAs and provisions | |
| vii) Information on restructuring of Advances | |
| viii) Investments held on behalf of Head Office. | |
| ix) Other Certificates required by bank | |

9. Remarks:

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

<u>LIABILITIES - DEPOSITS</u>	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
1. <u>Report</u> differences between control and subsidiary ledgers for all categories of deposit accounts. 2 a) Check balances from 3 individual subsidiary ledgers into the balance books (in case subsidiary books are maintained). b) * Generally review two accounts per ledger and enquire into any unusual items. c) * Enquire whether individual cash items in excess of Rs.10.00 lakhs each have been reported to the competent authority. d) *enquire into reasons for stagnant Current accounts of Banks [* Note down names of Accounts and particulars of such entries for report] 3 Check <u>and report</u> whether and the extent to which any overdue/matured deposits and deposits prematurely recalled, continue, as at the year-end, are being treated as Term Deposits instead of Demand Deposits. 4 Review overall withdrawals made during the year from inoperative accounts, and test, in-depth, major amounts. (Document accounts / entries tested <u>and report</u> wrongful or unsubstantiated items, based also on Branch response to <u>[Annexure I 6(e)] to the Letter sent as per Section A]</u> <u>Report in LFAR non transfer of Old Inoperative Accounts to the Central/designated Office as per the system in force</u> 5 <u>Savings Bank Accounts:</u> a)Check whether the Branch has Savings Bank Accounts for constituents in the negative list of the Bank. If so, - Report such accounts with aggregate outstanding as at the year-end; - Report interest paid on such accounts during the year. b) Check interest provision up to the year- end based on the date of last application of interest to individual accounts. Report differences c) Report Interest provision, to the extent not /short made or computed, at the Branch up to the year end and if Interest provision Accrued but not applied, is being treated not as Deposits but as part of Other Liabilities.	

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

<u>LIABILITIES - DEPOSITS (Contd.)</u>		<u>SIGNATURE OF THE</u> <u>AUDIT ASSISTANT</u>
<u>Term Deposits:</u>		
6	Verify Term Deposits from Banks/institutions a) with reference to certificates/confirmations from the institutions/banks concerned; and b) if not in round figures , ascertain reasons and vouch the relevant entries.	
7.	<i>In case the Bank has a system of automatic renewal of deposits on due dates, as built into the system, check whether the re-credits (renewals) in the Term Deposit Ledgers:</i> a) are, as per the system, <i>inclusive</i> of interest accrued and due(net of payments/credits to the depositors' accounts and further net of Tax Deduction at source(TDS) as applicable. <i>Report default based on checking, giving details of the renewals so made</i> b) are such where: • deposit receipts have not been actually issued under the automatic renewal scheme. <i>Report number and amount of such deposits</i> • deposit receipts have been issued but not physically dispatched to the depositors (i.e. held by the branch itself). <i>Report number and amount of such deposits</i> • the branch has not maintained the requisite record of the renewal while making endorsement on the old/existing receipts, i.e., without recording the same in its registers maintained for this purpose. <i>Report number and amount of such deposits</i> <i>(Note: Loss of control over credits in respect of Deposits increase audit risk and must be reported in the LFAR as a fraud prone area, particularly if the system is lax or items are incapable of audit trail. No. and amount of Deposit Receipts held physically and not dispatched and mere book adjustments through the computer system, not backed up by issuance of receipts must be incorporated in the report, as prone to the risk of misuse, if not under dual control).</i>	

<u>LIABILITIES - DEPOSITS (Contd.)</u>		<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
8.	Check and report whether and the extent to which Interest <i>Accrued and not due</i> has been recorded under the head Deposits	
9.	<u>Additional procedures:</u> (if any)	

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

<u>LIABILITIES –BORROWINGS</u> <u>(in case the branch has borrowings)</u>		<u>SIGNATURE OF THE</u> <u>AUDIT ASSISTANT</u>
1	Verify whether the Branch is authorised by Head Office/controlling authority, to borrow/retain borrowings and refinance obtained. [Report unauthorised borrowings / refinance]	
2	Obtain and check the amount of borrowing/ refinance as at the year-end, with reference to the balance confirmation certificate(s) from: a) Reserve Bank of India b) Other banks c) Other institutions and agencies: -Industrial Development Bank of India -Export Import Bank of India -National Bank for Agriculture and Rural Development -Others (Specify in the audit file)	
3	Check whether the amounts have been disclosed as required in respect of each sub-head. [Report: • balances not confirmed / reconciled, • entries, if any, required not passed, • interest adjustments / provisions not made upto the year-end for amounts: - accrued and due (to be shown as Borrowings), and - accrued but not due(to be shown as Other Liabilities)]	
4	Report amounts, if and to the extent included in Borrowings, on account of: a) Rediscount of bills, and b) * Participation certificates (on risk- bearing basis). (* These need to be netted from the related Advances)	
5	Report whether credit balances in a) NOSTRO b) VOSTRO accounts are included as part of borrowings where there are no overdraft facilities or arrangements Report that these must be reflected as Deposits from Banks	
6.	Check whether Borrowings are secured and whether the Branch has indicated the same in line with the disclosure requirements	
7	<u>Additional procedures:</u> (if any)	

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

OTHER LIABILITIES AND PROVISIONS:		SIGNATURE OF THE AUDIT ASSISTANT																																			
1	<u>Bills Payable:</u> (Applicable where entries are retained at branches) a) Check old/large outstandings in Bills Payable which remain unresponded/ unadjusted. a) Check and report large unlinked debits, particularly for Drafts paid without/ex-advice(DPWA),which, if not routed through inter-office account, comprise old entries requiring provision. b) Check inward communications from other branches which remain unattended as regards marking-off/adjustment entries relating to drafts and other similar instruments comprising “Bills Payable”. c) Check non compliance of Head Office/controlling authority instructions, where the amounts in respect of old instruments like Pay Orders/Bankers cheques/Pay slips which are expected to be presented to the issuing branch are expected to be transferred (after a time-lag) to a separate/frozen accounts . d) Obtain and check aggregate figures in respect of Bankers cheques and Pay orders as under : <table><tr><th><u>Particulars</u></th><th colspan="2"><u>Bankers cheques</u></th><th colspan="2"><u>Pay orders/slips</u></th></tr><tr><th></th><th><u>No.</u></th><th><u>Amount</u></th><th><u>No.</u></th><th><u>Amount</u></th></tr><tr><td>Within 6 months</td><td></td><td></td><td></td><td></td></tr><tr><td>6 months - 1 year</td><td></td><td></td><td></td><td></td></tr><tr><td>1-2 years</td><td></td><td></td><td></td><td></td></tr><tr><td>2-3 years</td><td></td><td></td><td></td><td></td></tr><tr><td>3 years and above</td><td></td><td></td><td></td><td></td></tr></table> (The above has to be included in the LFAR) e) <u>Seek confirmation for and report in LFAR</u> • <i>instruments in hand or those not dispatched</i> • <i>the risk of misuse of these if not covered by proper Internal control system or dual control.</i> f) Test entries made for frequent cancellation of instruments and re-issue thereof and report unusual /suspicious entries (List out such entries). g)Check pending communications from the centralized department dealing with matching of entries, <i>in case the bills payable entries are centralized</i>, and report effect thereof on the Branch Accounts h) Check whether, based on books/inward HO Communications, there are any unlinked debits over 1 year which require reporting for the purpose of provision.	<u>Particulars</u>	<u>Bankers cheques</u>		<u>Pay orders/slips</u>			<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	Within 6 months					6 months - 1 year					1-2 years					2-3 years					3 years and above					
<u>Particulars</u>	<u>Bankers cheques</u>		<u>Pay orders/slips</u>																																		
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>																																	
Within 6 months																																					
6 months - 1 year																																					
1-2 years																																					
2-3 years																																					
3 years and above																																					

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

	<u>OTHER LIABILITIES AND PROVISIONS:</u>	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
2	<u>Interest Accrued:</u> <u>(comprises interest accrued and NOT DUE)</u> a) Check whether interest provision made since last application thereof on . deposits, and . borrowings, Is computed up to the year-end and no part of such broken-period interest is accrued and due. b) Report interest accrued and due wrongly shown under this sub-head. c) Check year end entries for TDS deduction and payment	
3	<u>Others (including Provisions):</u> a) Check the balances and calculations of advance payments and unexpired discounts as at the year- end i.e., rebate on bills discounted. Report non/ wrong adjustments b) Other than in respect of usual and necessary provisions made at HO, check and report through the MOC, year-end provisions not made at the Branch for items of Branch expenditure nature, like: . Rent, . Rates and Municipal taxes, . Electricity and Power bills, . Telephone, Telegrams, telex etc., . Interest payable on Staff security deposits, . Payments and provisions for employees other than for items for which H.O. makes provision, . Repairs/maintenance bills, . Advances to staff for expenditure . Other known expenditure items -e.g. AMC charges . Concurrent Audit Fees . Advances of expenditure nature requiring provisions c) Check and report whether pending bills requiring adjustment for items of the nature of capital expenditure, are adjusted, e.g. . cost of fixed assets acquired(particularly if part payments have been made), . progress bills relating to premises under construction/ renovation, etc. and report impact of depreciation if any e) <u>Cash Margins:</u> . Ascertain whether credits are represented by actual collections in cases of advances comprising Bills Purchased and Discounted (Report mere book adjustments) . Check whether deletions are required in case of expired Guarantees/Letters of Credit where obligations have ceased	

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ASSETS	SIGNATURE OF THE
CASH AND BALANCES WITH RESERVE BANK OF INDIA:	AUDIT ASSISTANT
Cash: (Also see Section B of the background material) a) Physically verify simultaneously at all locations of the branch, as at the close of the accounting year and tally with the books, the following: i) Cash in hand (Including sub-Offices) ii) ATM balances with reference to the ATM Print out Rolls/scrolls/tapes iii) Foreign Currency iv) Petty Cash/Imprest balances v) Postage in hand (cash) vi) Tokens and in case these balances cannot be physically verified as at the year-end: - verify the same at a subsequent date, preferably by surprise check on the date of the first visit indicating the date (.....) - obtain as evidence for the audit file, balance confirmation certificates in respect of cash balances both as at 31st March and the date of physical verification thereof indicated in sub-para (a) above. Report discrepancies, if any, in the MOC b) Scrutinise the cash book transactions for the last two working days of September/March and vouch large transactions. (Report unusual entries in LFAR, unless these require qualification) c) Check whether the value of foreign currency notes(if held) has been converted into Rupees at correct rates, notified by the Controlling Authority, for proper disclosure of the cash balance. d) Check entries arising from ATMs if operated by the Branch, and report unrecorded cash operations upto the * day-end as at the year-end, as affecting:. - cash in hand - Accounts of constituents - Other Banks, if any, (* Note: This can be done with reference to the year-end scrolls / tapes generated by the ATM and subsequent entries)	

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ASSETS		SIGNATURE OF THE AUDIT ASSISTANT
CASH AND BALANCES WITH RESERVE BANK OF INDIA: (Contd.)		
2	<u>Balances with Reserve Bank of India:</u> <u>2.1 Where Branch maintains RBI Account(s):</u> a) Obtain balance confirmation certificate(s) for balance(s) as at the year-end in the account(s) of the Reserve Bank of India, for: - Current Account, and - other accounts, and verify whether the book balance(s) as per the ledger agree(s) with those as per confirmation(s). b) Obtain and check bank reconciliation statements as at the year-end and report: - large/old unadjusted entries, - cash transactions remaining unresponded, and - revenue items included in reconciliation statements remaining unadjusted, and having effect on other heads and sub-heads in the Branch Accounts. a) Check whether interest accrued to the Bank upto the year-end has been adjusted (including where formal entries in RBI statements are made after the year-end). b) Check and report on a value-date basis, transactions and entries originating prior to, but responded after the year-end in R.B.I. Account (including entries for currency chest operations, originating at other Branches / Offices), particularly where such entries appear in nominal heads of accounts. c) Report old debits in Reconciliation statement requiring provision. <u>2.2 Where the Branch does not maintain RBI Account but has a Currency Chest:</u> Check whether all deposits/ withdrawals to/from Currency chest upto the year-end have been reported to the link Branch maintaining RBI Accounts. (Report entries pertaining upto the year-end communicated after the year-end) 2.3 Report if there are any penalties for default in operation of the Currency chest or otherwise have been claimed by or paid to RBI	
3	<u>Additional Procedures:</u> (if any)	

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ASSETS	<u>SIGNATURE OF THE</u>
<u>BALANCES WITH BANKS AND MONEY AT CALL AND</u>	<u>AUDIT ASSISTANT</u>
<u>SHORT NOTICE:</u>	
1 <u>Balances with Banks:</u>	
a) Obtain in evidence of the year-end balances, the relevant bank confirmation certificate for balances in each Bank (<i>fill up details below</i>), for:	
<u>Nature of Account</u> <u>Name of the Bank</u>	
- Current accounts	
- Deposit accounts	
b) Verify whether any balances with Banks on 'Deposit' Account are in odd (<i>and not round</i>) figures and enquire as to whether any such amounts are really of the nature of deposits, or otherwise comprise only Current Account balances.	
c) Scrutinize outstandings in the bank reconciliation statements and <i>report</i> :	
i) old/large unadjusted outstanding entries particularly at debit;	
ii) cash transactions remaining unresponded; and	
iii) items of revenue nature not adjusted.	
d) Check and <i>report in MOC</i> , the effect of entries (originated overseas – whether debit/credit) in NOSTRO Accounts, and <i>report</i> whether :	
- the balances are as corrected and updated in foreign currencies.	
- the profit / loss on valuation is correctly accounted.	
e) Ascertain whether and the extent to which provision is required for outstanding debit entries which are old/large (over one year) and which remain unexplained.	
<i>Report outstanding entries over one year as under in the MOC forming part of the Audit Report:</i>	
<u>No. of Entries</u> <u>Amount(Rs.)</u>	
- Debit	
- Credit	
f) Check whether the year-end rates of exchange are applied to outstanding balances in foreign currencies (keep evidence on record)	

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ASSETS :	SIGNATURE OF THE
<u>BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE: (Contd.)</u>	<u>AUDIT ASSISTANT</u>
2 <u>Money at Call and Short Notice:</u> [APPLICABLE ONLY TO DESIGNATED BRANCHES] a) Verify the general or specific authority from Head Office/controlling authority for keeping moneys at call and short notice: - with Banks, and/or - with other institutions. b) Verify the year-end balances under the relevant sub-heads, with reference to - the relevant Deposit Receipts; - the relevant correspondence (in case of subsequent squared-up transactions); and ascertain whether the aggregate balances comprising these as shown in the relevant register, tally with the control account as per the general ledger. c) check interest adjustments made upto the year-end based on the terms on which moneys were placed.	
3 <u>Additional Procedures:</u>(if any)	

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ASSETS - <u>INVESTMENTS:</u>	<u>SIGNATURE OF THE</u> <u>AUDIT ASSISTANT</u>
<i>[NOTES: 1. Generally investments are dealt with on a centralised basis and verification procedures on behalf of the centralised office may be restricted to certain branches only.</i> <i>2. If the above procedures are not applicable at the Branch, it may be so indicated.]</i> A. <u>WHERE INVESTMENTS ARE HELD AT BRANCH:</u> 1 Obtain a list of investments held by the Branch on behalf of the Head Office/Central Investment Cell and verify the contents thereof by conducting a physical verification of: a) Securities of the nature required to be disclosed in the Bank's annual accounts. b) allotment letters/other documentary evidence held, where the securities are not available with the Branch. Report results of the verification in the manner required by the Head Office/Central Statutory auditors. 2 Verify and report whether income collected on such investments has been recorded as income of the Branch contrary to instructions of the Bank. B <u>WHERE VALUE OF INVESTMENTS IS RECORDED AT THE BRANCH (OTHER THAN THE TREASURY BRANCH):</u> 3 In case value of investments is recorded in the books of the Branch: a) verify authority for acquiring/holding such investments; b) vouch all transactions relating to acquisition/disposal of investments; c) Physically verify the investments with reference to documentary evidence; and d) Verify whether legal requirements of disclosure have been complied with. Report adverse observations 4 <u>Additional Procedures:</u> (if any)	

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ASSETS - ADVANCES:		SIGNATURE OF THE AUDIT ASSISTANT	
1	Verify whether the control and subsidiary ledger accounts have been reconciled and that the Branch has prepared for audit verification: i) party-wise statements of advances keeping in view the classification as required by law; and ii) break-up of advances which reconciles with the figures of advances in the final statements as at the year-end. iii) in case statements are system generated , ascertain whether the latest prudential applicable norms have been incorporated in the inputs to generate the advances returns Report adverse observations in Main Report, as these impact provisions		
2.	Where a Centralised Office (Loan Processing Cell) appraises advances, sanctions loans, executes and holds documents related to the Borrower, whose account/facilities are operated at the Branch, seek and evaluate, written representations to the matters stated in Annexure I to Section A of the background material, and: a. Obtain confirmation from the said Office as to the number and amount of the advances accounts b. Check that, as per the System, the Sanction Letters are issued strictly as per the documentation and that these are not merely computer generated, without authentication c. Report if and to the extent examination of the borrowal accounts could not be made due to non access to the records sought and not produced at the Branch Report adverse observations in the Main Report		
3	Check the year-end balances of Advances with reference to the sub-ledgers for each category of advances , in respect of: a) Bills Purchased and Discounted b) - Cash Credits - Overdrafts - Demand Loans - Overdrawn balances in Deposit Accounts c) Term Loans (report advances to willful defaulters on the list of RBI) Obtain and check, for each large borrower, the year-end status of the advances as per the Format (Section A Annexure III) and report adverse features (Data must be obtained from the generation of "Exception Reports on the Adverse features)		

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ASSETS -ADVANCES: (Contd.)	<u>SIGNATURE OF THE</u> <u>AUDIT ASSISTANT</u>
4 <u>Bills purchased and discounted:</u> a) Check closing balances as at the year-end in the accounts of the parties. b) Conduct physical verification of bills in hand as at the year-end, and on any other date in the course of audit and tally the same with the book records. (Date of verification _____) c) Check and report on: - Bills not supported by relevant documents, or where these have been parted with in favour of drawees, - *Advances in excess of limits to any party, - Old outstanding balances, - *Bills which are overdue/matured but not adjusted, - *Frequent returning of bills, and account where old bills are replaced by new ones to accommodate borrowers, - *Bills drawn on 'self' or on associate or inter-connected concerns, - Bills drawn on unauthorised parties - adjustments not made for rediscounting of bills, and - Bills comprising mere book adjustments(resulting in inflated figures with corresponding book adjustment towards margin money). - any other adverse features observed. *Based on “exception reports” to be got generated	

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ASSETS- ADVANCES: (Contd.)	SIGNATURE OF THE AUDIT ASSISTANT
5 Cash credits, overdrafts, demand loans and Term Loans: Select Advances (preferably as per Annexure C.I) and check in depth all advances accounts in each category/sub-head as under: a) all large accounts i.e., those which are in excess of 5% of the aggregate advances portfolio of the branch or Rs.200 lakhs whichever is less(Section A, Annexure III). b) all accounts where provision for doubtful debts has been considered/ made/recommended upto the previous year end / half year-end/last quarter. c) all accounts adversely commented upon in the latest reports of the Branch auditors, RBI/ internal inspection/audit reports, concurrent audit reports etc. d) accounts, where Branch Management has initiated/ recommended to the higher authorities, action, if warranted, for recoveries. e) 2 of the largest) other than per (a) accounts) above - for each) category of 2 accounts at) advances random) e) grouped accounts-one account per ledger. (Audit file must contain the list of such accounts examined)	
6 Record list of accounts checked in the audit note file, based on examination of and observations on accounts with reference to: a) documentation, b) security (of tangible assets), c) classification (-Secured, guaranteed by Bank/Govt., Unsecured; and further break-up into Sector-wise classification for advances in India).	
7 Check that adverse or overdrawn balances in Deposit, Savings and Current Accounts have been shown as clean/unsecured advances.	

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ASSETS - ADVANCES: (Contd.)		SIGNATURE OF THE AUDIT ASSISTANT	
8	Check Status report and brief history of each advance account for advances accounts being reported upon-particularly for major adverse features. Observations should be in Annexure C.II. <i>{These status reports (preferably prepared as per Annexure III) should be kept on the Audit file and a copy to be annexed to the LFAR}</i>		
9	• Report advances accounts identified as having adverse features, or under restructuring, not transferred/categorised as per the new norms into: (a) SUB-STANDARD (b) DOUBTFUL; and (c) LOSS ASSETS. • Report borrowal accounts where the facilities have not been reviewed/renewed or stock statements not received for a period of 180 days (<i>and such irregularity persists for 90 days</i>) and where accounts continue to be classified as "Standard" • check and report in the Main Report, income contractually accrued but not realised , to the extent not reversed in all accounts identified/ reported upon(and classified as other than "Standard") . • Report the amount of non-reversal in the Main Report • Report in the Main Report, income accrued / recorded in NPAs where credits have been given to Income out of fresh facilities.		
11.	a) Check whether restructured account balances as per books (without Interest Suspense in case of NPAs), have been properly segregated into less than Rs.1.00 crore and more than Rs.1.00 crore for: • pending applications/proposals; and • Others b) Report in the Main Report, sacrifice/ provisions required (and for diminution in value), but not made in borrowal accounts involving: i) Restructuring under corporate Debt Restructuring (CDR)-<i>including in pending proposals</i>): a. Standard b. Sub Standard c. Doubtful ii) Other Restructuring (separately for projects in category I,II,III) (<i>including in pending proposals</i>) • Standard • Sub Standard • Doubtful iii) Other Rehabilitation cases/ one time settlement cases iv) Funded Interest/Working Capital Term Loan (usually arising from default in servicing of Borrowings) (Refer also Section A II formats)		
12	<u>Additional Procedures:</u> (if any)		

<u>BANK</u>	<u>BRANCH</u>
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ASSETS - FIXED ASSETS:	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
1 <u>PREMISES:</u> a) Check opening figures of cost from the earlier year's statements/ records. b) Vouch additions during the year c) Vouch deductions during the year d) Check depreciation/lease money written off upto the year-end based on the rates prescribed and the basis communicated by the controlling authority. (Reference may be made to the Bank's Accounting Policy) e) Inspect documents of title to each property, and report: - documents of title not made available - capitalisation not made in respect of properties where though documentation has not been formally completed but substantial risks and rewards of ownership vest in the Bank. f) Check whether the balance in the control account in the General Ledger tallies with that as per the subsidiary records and fixed Assets Register.	

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ASSETS-OTHER FIXED ASSETS (including furniture and fixtures):		<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
2 <u>OTHER FIXED ASSETS:</u> a) Check opening figures of cost from the earlier year's statements/records. b) Vouch additions during last week of September and March. c) Vouch deductions upto the year-end. d) Check depreciation written off upto the year-end based on the rates prescribed and the basis communicated by the controlling authority. e) Inspect Head Office/Controlling Authority sanctions with regard to additions/deductions of assets f) Examine nominal heads of account, like "SUSPENSE" or other similar accounts, where debits may comprise amounts paid towards acquisition of motor vehicles, computers, furniture and other items of fixed assets pending capitalisation and report whether and the extent to which capitalisation required has not been made. g) Inspect the relevant registration books and check whether insurance covers are in force for vehicles. h) Vouch disposals of assets shown under the above sub-head and the consequent profit/loss thereon. i) In case of renovation of branch, verify whether capital and revenue expenditure has been appropriately bifurcated and correctly accounted, on the basis of liability incurred and not on cash basis. j) Check whether the balance in the control account in the General Ledger tallies with that as per the subsidiary records and Fixed Assets Registers. k) Ascertain the frequency of physical verification of assets at the branch and review the discrepancies recorded between the book records and such verification. l) Check adequacy or otherwise of insurance cover to assets. m) In respect of Computers, check whether depreciation is being charged off to the extent of 1/3rd of the cost each year.		
3 <u>Additional Procedures</u> :(if any)		

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ASSETS - OTHER ASSETS	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
1 <u>Inter-Office Adjustments (net)</u> a) Enquire into the system and the heads of accounts for which Inter branch Adjustments are recorded at the branch; and the system of transmission of information to the designated office/Central Cell where the entries are matched for reconciliation. b) Check whether the Daily Head Office Summaries have been prepared, as per the laid down system, and whether these have been dispatched each day that the entries take place, to the designated office as required, for matching process. c) Check whether the closing balance in Head Office summary tallies with that as per the General Ledger balance as at the year-end. Report difference in the Main Report. d) Examine inward communications from the Head Office/Central Cell and check compliance thereof for settlement of their queries and adjustments required to be made at the Branch. (Report non-compliance having effect on the accounts of the Branch) e) Examine and report inward communications from other branches/offices originating prior to but not responded upto the year-end. <u>(Adjustments made after the year-end based on entries originating prior to the year-end, should be examined and effect thereof reported-Refer Section A VI)</u> f) Examine old/large entries outstanding debits in the inter-branch/office accounts and vouch large entries, particularly towards the year-end. (Ascertain reasons for such entries remaining pending and report adverse features) g) Obtain reasons for outward remittance unresponded by other branches, if these have been outstanding since long. h) Examine and report on originating debits in Head Office Account, not satisfactorily explained. h) Report, in respect of the Branch, all debit entries which are over one year old as at the Balance Sheet date under each Sub-head comprising Inter-branch Adjustments. 2 <u>Interest Accrued: (Comprises not due)</u> a) *Check basis and verify income on investments for the broken period upto the year-end with break-up for interest: - accrued but not due; - due but not collected. (* if applicable at the branch) b) Check income accrued but not due on advances which has accrued but is not due as per arrangements/documentation (mainly for Term Loans with due dates not coinciding with year-end) c) Report interest accrued other than on Investments/advances to the extent included under the above sub-head. Report income accrued on assets identified as non-performing (including on Advances).	

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ASSETS - OTHER ASSETS (Contd.)	SIGNATURE OF THE AUDIT ASSISTANT
<u>Stationery and Stamps:</u> a) Conduct physical verification of items of security paper stationery and report discrepancies between such inventories and book records. b) <u>Internal Controls (LFAR issues)</u> • Check whether internal controls laid down for receipts/issue and holding of stationery comprising security paper, are being followed; particularly as regards issue of stationery in proper sequential order in respect of numbered forms. • Check whether internal controls are strictly enforced for withdrawal slips, and cheque books. Examine whether unused cheque books are returned upon closure of their accounts constituents. • Report security paper stationery comprising inward dispatches from other offices not physically received or short received. • Check and report whether the Branch is holding large stationery stocks, over a long period of time. • Check whether stock of unused stamps/ stamp paper is intact and tallies with the relevant register. • <i>Extensive use of Withdrawal Slips and not cheques</i> Examine large withdrawals from Accounts (particularly newly opened) if made by other than cheques issued by the Account holder. (Report unusual items) <i>Examine and enquire into reasons for frequent use of Withdrawal Slips /Bankers cheques by Account holders. (This may be done with reference to consumption of such slips at the Branch)</i>	

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ASSETS -OTHER ASSETS (Contd.)		SIGNATURE OF THE AUDIT ASSISTANT
4 <u>Others:</u> a) <u>Suspense, Sundries</u> (or other similar heads of account): - Obtain year-wise break-up of entries outstanding as at the year-end for scrutiny; and . report provisions required for old outstanding unadjusted amounts, . report year-wise summary in the long form audit report. - check entries (at debit) relating to clearing transactions outstanding and ascertain reasons for old entries <i>[Report items requiring provision]</i> b) <u>Staff advances</u> (Non-interest bearing): Ascertain the types of advances to staff requiring disclosure under this sub-head and the normal terms on which such advances are made and . check balancing of the relevant ledgers, . test advances representing 1% in value on account of housing loans with reference to the relevant documentation. . test 1% of the other advances(at least 3 Accounts). <i>(Note down the particulars of the accounts tested)</i> . Check whether in the cases tested whether the bank has obtained documents (including the letter of lien on terminal benefits) relevant to the type of advances. c) <u>Security Deposits:</u> - Vouch deposits made during the year - Check whether any adjustments are pending for old/existing deposits (e.g. OYT Deposits, Rent Deposits) d) <u>Prepaid Discount on Bills Rediscounted:</u> In respect of Bills Rediscounted as at the year-end, check calculation of prepaid discount attributable to the period beyond the year-end. e) <u>Premises under Construction:</u> - Check adjustments upto the year-end of progress bills vis-à-vis the relevant contracts/controlling authority. - Check whether capitalisation, where required, has been made so that depreciation thereon can be considered. f) <u>Other Fixed Assets pending Capitalisation:</u> - Check whether capitalisation, where required, has been made, so that depreciation thereon can be considered. - Ascertain reasons for old outstanding balances in Advances relating to acquisition of fixed assets to ensure that these do not require adjustments. g) <u>Others:</u> - Generally scrutinise old/large entries outstanding in accounts falling under any sub-head relating to the above head, to ensure that: - adjustments, if any, required are reported, - provisions, if any, are made for amounts considered doubtful of recovery. - Scrutinise and report whether any outstanding entries relate to any other specific head of account (particularly 'Advances' - in case any debit relates to the account of any borrower). 5 <u>Additional Procedures</u> : (if any)		

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OFF BALANCE SHEET ITEMS - CONTINGENT LIABILITIES:	SIGNATURE OF THE AUDIT ASSISTANT
1 a) <u>Claims against the bank not acknowledged as debts:</u> Obtain a list of updated claims lodged against the bank and check status thereof based on correspondence /communications and whether the claims have been contested/not acknowledged. b) Scrutinise details of major law charges and report whether any expenditure has nexus to any claims/ disputes/litigation matters having financial implications involving possible liability not acknowledged. c) Check whether any claims outstanding as at the previous year-end have been omitted/ignored unless liability in respect thereof has ceased. Report difference in the Main Report. d) Seek information on claims recorded in the post-balance sheet period to ensure that no items relating to the year under audit have been ignored. 2 <u>Liability for partly paid investments: (if applicable)</u> Check whether liability on account of partly paid investments has been disclosed at correct figures. 3 <u>Liability on account of outstanding forward exchange contracts: (if applicable)</u> a) Check register(s) relating to the outstanding forward exchange contracts to ensure that all transactions contracted for upto the year-end have been correctly recorded. b) Check basis of year-end foreign currency translation with reference to Head Office/controlling authority communications. c) Check whether the Branch has recorded the net profit/loss upto the year-end as per R.B.I./FEDAI instructions for the time being in force. 4 <u>Guarantees given on behalf of constituents:</u> a) Generally scrutinise the guarantee register(s) to ensure that guarantee documents* issued are sequentially and expeditiously recorded *(includes letters of comfort). b) Check the list of outstanding guarantees with the relevant registers to ascertain whether all outstanding amounts are included as at the year-end. c) Check whether the amount of expired guarantees, where the claim period has also expired, is not included; and if included, whether the bank has recovered the commission thereon upto the year- end. d) Check whether contingent liability includes liability in respect of invoked guarantees where action was warranted by the Management(to invoke counter-guarantees, appropriation of securities/margins/marketing lien on accounts to protect the interest of the Bank). e) Ascertain whether the Branch has disclosed contingent liability net/ gross of cash margins/security available, contrary to HO instructions In case of guarantee obligations involving foreign currencies, check whether liability is based on translation of foreign currencies at correct rates applicable.	

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OFF BALANCE SHEET ITEMS - CONTINGENT LIABILITIES (Contd.)		SIGNATURE OF THE AUDIT ASSISTANT
5	<u>Acceptances, endorsements and other obligations:</u> <u>a) Letters of credit:</u> - check outstanding Letters of credit balances with reference to the relevant L.C. Registers maintained; - check whether margins/security obtained is as per the terms and conditions in the cases examined. (keep record of cases tested in the work papers). <u>b) Bills accepted:</u> - check whether recoveries are being made from customers upon the maturity of the bills accepted by the Bank to provide assurance to the payees	
6	<u>Other Items:</u> <u>Bills rediscounted:</u> - Verify whether contingent liability is shown only on account of outstanding bills rediscounted and where upon maturity of bills adjustments were not made. - Examine entries recorded in the post balance sheet period as regards reversal adjustments of bills rediscounted to the extent these relate back to adjustments for the year under audit. - Obtain and check confirmation certificates from the parties rediscounting the bills (R.B.I./ I.D.B.I./D.F.H.I. and other institutions/banks) - Check inter-branch transactions towards the year-end to ensure that items relating to bills rediscounted are adjusted to the extent included therein.	

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<u>CONTINGENT LIABILITIES: (Contd.)</u>	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
7 <u>General:</u> Obtain from the Branch Management a representation to the effect that all known liabilities have been duly incorporated upto the year-end and that there are no contingent liabilities except to the extent disclosed in the branch returns submitted for audit. Review major contingent liabilities recorded at the Branch and report any discrepancies affecting the disclosure in the Balance Sheet. 8 <u>Additional Procedures</u> :(if any)	

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BILLS FOR COLLECTION:		<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
1	Check whether bills in hand as physically verified as at the year-end and/or at a subsequent date(.....): a) are complete in all respects and duly supported by the relevant documents as required; and b) that particulars thereof tally with the those entered in the relevant Bills Register(s) maintained for the purpose.	
2	Scrutinize the age-wise details of the pending bills, and ascertain reasons for retaining bills: a) beyond the normal dates of retention; or b) contrary to instructions of the constituents; or c) which have been frequently returned, and for which the customers have not been charged.	
3	Check in the post-balance sheet period, whether entries have been marked-off based on collections made in respect of bills under collection as at the year-end: and enquire into outstanding entries not squared up on due dates	
4	Check and report whether bills under collection include amounts comprising bills drawn on other branches of the bank (i.e. inter-branch bills).	
5	Check whether year-end bills expressed in foreign currencies have been converted at rates as stipulated by Head Office/controlling authority.	
6	Check totals in the Bills Register(s) and ensure that correct figures appear against the above head in the Balance Sheet.	

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<u>INCOME - INTEREST EARNED:</u>	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
1 <u>Interest/discount on Advances/Bills:</u> <u>a) Large Advances:</u> (with balances above 5% of the aggregate branch advances as at the year-end): Check interest charged in borrowers' accounts: - for one quarter (ended 31.3.2010) - for the balance three quarters, in case major differences are observed in the quarter checked. (Accounts must be listed in the audit notes) b) <u>Other Advances:</u> i) <u>Term Loans:</u> Check interest for two quarters(ended 31.12.2009 and 31.3.2010) - 2 of the largest accounts - 2 accounts at random [List out names of the Accounts checked] ii) <u>Cash credits, overdrafts, demand loans etc.</u> Check interest charged in each category of advances covered by the above sub –head for two months(September 2009 and March 2010) - 2 accounts (largest advances) - 3 accounts at random Report whether interest has been short/excess charged from borrowers based on application of wrong credit rating- List such Accounts (Prepare a list of accounts and periods for which interest has been checked - as per the recommended proforma for Report –Section D I.4) c) Check whether interest adjustments required upto the year-end, and arising from income audit/inspection audit/concurrent audit and/or similar audit reports, have been made. d) Check whether Interest accrued includes income in respect of accounts classified as NPAs (including those classified during audit). e) Check whether, in the accounts examined interest has been recorded as income on Non-Performing Accounts contrary to RBI norms <i>Adverse observations must be incorporated in the Report stating the unrealised amount recognised as income in NPAs.</i> f) <i>Examine nature of debits in Income account to check whether these are appropriate.</i> (Vouch all large debits and record the same in the Audit Notes) g) Examine whether changes in the rates of Interest computations through the system are made on effective dates	

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

INCOME	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
<u>INTEREST EARNED: (Contd.)</u>	
2 <u>Income on Investments:</u> Check authority/basis for recording income on investments, in the branch returns, and if authorized, vouch the same in-depth.	
3 <u>Interest on balances with Reserve Bank of India and other inter-bank funds:</u> Check authority/basis for recording income on investments, in the branch returns, and if authorised, vouch the same in-depth.	
4 <u>Others:</u> Test check interest on : - staff advances (given by the bank as employer/banker), - security deposits, - other claims, - other items, which comprise assets recorded under the head "OTHER ASSETS" in the Balance sheet. (Record must be kept for items tested)	
5 Check inter-branch interest with reference to HO advice(s).	
6 <u>Other Procedures</u> : (if any)	

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

INCOME - <u>OTHER INCOME:</u>		<u>SIGNATURE OF THE</u> <u>AUDIT ASSISTANT</u>
1	<u>Commission, exchange and brokerage:</u> a) Test check commission on: - Bills for collection - for bills in hand as at the year-end - Letters of credit (those current - 10% of the largest ones in value) - Guarantees (those current - 10% of the largest ones in value) b) Vouch entries each in excess of 2% of the aggregate in each income head in which commission, exchange and brokerage, is recorded. (Details of work done must be kept on the audit file) c) Ascertain reasons for major discrepancies between locker rent collected and that normally due on the basis of lockers let out. d) Check that adjustments to the extent required, have been made in the accounts in compliance of the latest reports of: - the Branch inspection audit, - Income/Revenue audit, - concurrent audit, and - any special audit.	
2	<u>Profit on sale of investments (less Loss):</u> (If applicable at the branch) Check authority/basis for recording in the Branch returns, the profit/loss on sale of investments- and vouch the transactions in depth.	
3	<u>Profit on sale of land, buildings and other assets (less Loss):</u> (If applicable at the Branch) a) Check authority for disposal of: - fixed assets, if any, sold during the year under audit; and - non-banking assets acquired in satisfaction of claims. b) Vouch transactions in evidence of profit/loss recorded by the Branch in respect of assets, as aforesaid. c) Report if any assets have been revalued and entries recorded in respect thereof at the Branch level.	

<u>BANK</u>	<u>BRANCH</u>
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

INCOME -_OTHER INCOME: (Contd.)	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
4 <u>Profit on exchange transactions (less Loss):</u> a) Check that the year-end outstanding entries are converted at appropriate rates of exchange as communicated by the Controlling authority, for recording profit/loss on exchange transactions. b) Test large transactions(each in excess of 2% of the aggregate in the ledger), and check whether these are recorded in compliance with the directions of the controlling authority. c) Scrutinize the transactions recorded in the post-Balance sheet period to ensure that no material items have been ignored upto the year-end. d) Enquire into unusually large entries involving huge gains/losses for the year(and whether these pertain to the Branch or another linked office). 5 <u>Miscellaneous Income:</u> a) Ascertain whether any premises or part thereof is let out, and if so, whether rent recoveries are recorded upto the year-end at the rates as applicable. b) Check items, each in excess of 5% of the aggregate amount in the income sub-heads relating to 'Miscellaneous income'. (Take note of work done, in the audit file)	

BANK	BRANCH
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AUDIT PROGRAMME –EXPENDITURE		<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
<u>INTEREST EXPENDED:</u>		
1	<u>Interest on deposits:</u> Test check for each category of deposits, interest as under (based on the system and check if modifications in applicable rates are made from the effective dates): (Have 'exception' reports generated on adverse features) a) <u>Savings Bank Deposits:</u> (i) In case interest test is applied at periodic intervals at the Branch, check whether the excess/short adjustment upto the date the last application was so made, has been adjusted. (ii) Check compliance of Head Office instructions as to the date upto which interest is required to be adjusted to the savings bank accounts and the manner/basis of further provision/accrual of interest upto the year-end. (iii) Test 2 accounts per ledger (and list out the accounts checked in the audit notes). (iv) Ascertain whether an over-all check of interest calculations(based on the control account in the General ledger for the year) reveals any major variation in the expenditure recorded. b) <u>Term Loans:</u> (i) Check interest on year-end Term Loans from Banks/institutions (100%). (ii) Check that interest provision is made on each category of term deposits. (iii) Check one account in each subsidiary ledger in-depth. (iv) Check on an over-all basis the computation of interest with reference to the average balances in the Term deposits in each category-enquire into major variances. (v) Check whether interest is provided on matured/overdue deposits upto the year-end, and if so, the basis thereof. c) <u>General:</u> Check compliance of reports relating to Income/expenditure control audit in Relation to interest on deposits. d) Report Interest, if paid, on any Current Account balances(and authority to pay the same).	
2	<u>Interest on R.B.I./inter-bank borrowings(If applicable):</u> Check authority/basis on which the branch has recorded interest on the above.	
3	<u>Others:</u> Check interest /discount (100%) on borrowing/refinance from financial institutions (if borrowings are authorised by Head Office). Check interest on non-risk bearing participation certificates(100%). (if participation is authorised by H.O.)	

BANK	BRANCH
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OPERATING EXPENSES	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
<u>OPERATING EXPENSES:</u> 1 <u>Payments to and Provisions for employees:</u> a) Check salaries/allowances for one month (Month _____) b) Check major variances in such salaries, allowances in any month; and enquire into reasons for the same. c) Report whether pursuant to any award/settlement or otherwise any arrears of remuneration are due but not adjusted. 2 <u>Rent, taxes and Lighting:</u> a) Check rent for 1 month and verify whether adjustments have been made for the full year on account of rent at the rates as applicable and as per agreement in force. b) If agreement has expired, check provision for accelerated demand/claim; and report non provision/adjustment c) Report whether Rent includes House Rent Allowance to employees. d) Report municipal rates/taxes not paid/adjusted in respect of the Branch, for the year under audit e) Report any disputed liability on this account upto the year-end. 3 <u>Printing and Stationery:</u> Check items, each in excess of 5% of the total expenditure recorded at the branch. Check and report if any articles of stationery have been shown in the Branch statements (Report the same) 4 <u>Advertisement and Publicity:</u> Check items, each in excess of 5% of the total expenditure recorded at the branch. 5 <u>Depreciation on Bank's Property:</u> a) Check H.O. instructions as regards adjustment of depreciation on the fixed assets of the Branch. b) Check whether depreciation on fixed assets, has been adjusted at the rates and in the manner required by Head Office. c) Report unadjusted depreciation on assets acquired but not capitalized. 6 <u>Law Charges:</u> Check items, each in excess of 5% of the total expenditure recorded at the branch. 7 <u>Postage, Telegrams, Telephones etc.</u> a) Check items, each in excess of 5% of the total expenditure recorded at the branch. b) Check whether OYT deposits have been written off in accordance with the system in force. 8 <u>Repairs and Maintenance</u> Check items, each in excess of 5% of the total expenditure recorded at the branch.	

BANK		BRANCH	
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]			
GENERAL:		SIGNATURE OF THE AUDIT ASSISTANT	
1	<u>General Ledger:</u> a) Check all opening balances in the General ledger. b) Review large cash transactions as generated through "Exception Reports" c) Check all closing balances [after ensuring that those have been inked, and initialed by the authorized signatory in case of manual accounts], and see that the final statements are in agreement with the books. d) Review the day end and year end transactions as at 31-3-2010 for any unusual entries that require reporting.		
2	<u>Safe Custody:</u> a) Test whether securities/parcels/packages of the customers kept in safe custody with the branch are intact and as per entries made in the Safe Custody Register maintained. b) Check whether the seals are intact in respect of sealed covers of customers (The contents of such covers are not required to be verified by opening the seals). c) Test check whether the system warrants safe custody items being returned with proper acknowledgements from the recipients. d) Test check income on account of safe custody charges. (Note must be kept in the audit file for work executed)		
3	a) <u>Frauds/Vigilance Cases:</u> Scrutinise the list of cases recorded at the Branch including those reported/recorded after the year-end for considering in the long form audit report, any major items. - For frauds - For Vigilance cases - Customers' complaints for unauthorized debits to their accounts pending enquiry (not covered by the above) b) Ascertain whether adequate provision has been made/recommended for debits arising at the branch on account of frauds reported/recorded.		

BANK	BRANCH
AUDIT PROGRAMME - [Bank Branch Audit 2009-10]	

<u>GENERAL: (Contd.)</u>	<u>SIGNATURE OF THE AUDIT ASSISTANT</u>
5 <u>Corresponding Comparative Figures:</u> a) Enquire from the Branch Management the reasons for disproportionate unusual/large variations under income or expenditure heads as compared to the corresponding financial figures of the earlier year. b) Broadly review the trends between: - the interest earned in relation to advances and outlay of funds; and - expenditure by way of interest vis-a-vis the Deposits and other liabilities, - current and preceding year's aggregate of . Interest Suspense . Unapplied Interest and ascertain from the management, reasons for divergent trends. Report results of enquiry/ review, if not satisfactorily explained. <i>(These matters are more relevant to the long form audit report).</i>	
6 <u>Additional Procedures:</u> (if any)	

NOTES AND INSTRUCTIONS - DEPOSITS:

1. Legal requirements of disclosure:

A. I. Demand Deposits:

i) From Banks

ii) From Others

II. Savings Bank Deposits

III. Term Deposits:

i) From Banks

ii) From Others

B. i) Deposits of branches in India

ii) Deposits of branches outside India

2. Demand Deposits:

a) Demand deposits are of the nature of current accounts at credit of parties, are repayable on demand **and include Overdue/matured Deposits, Credit balances in overdraft accounts, Deposits payable at call, Inoperative current accounts, Vostro Accounts, *Merchant Bankers'** and similar Deposits, Interest accrued and due on deposits **and exclude** Margins by way of book adjustments, if any, against bills purchased and discounted. These are disclosed at gross figures **without netting out** Overdrawn/adverse balances in deposits.

Such deposits to be separately disclosed in respect of: i) Banks; and ii) Others.

b) **From Banks**- The term "bank(s)" would include banking companies, nationalised banks, S.B.I., associate banks and other institutions, including cooperatives carrying on the business of banking, whether or not incorporated or operating in India. These include credit balances in NOSTRO/VOSTRO accounts (though NOSTRO accounts are expected to be invariably at debit).

c) **From Others** - would comprise all demand deposits other than in (b) above

- credit balances in overdraft accounts,
- deposits payable at call,
- overdue deposits,
- inoperative current accounts,
- matured time deposits/cash certificates/certificates of deposits etc.

(*The reconciliation status of Merchant Banking deposits must be enquired into and reported as this is a risk prone area)

d) **Overdue/matured deposits** not subject to renewal instructions are to be treated as deposits repayable on demand and included in the balance sheet as Demand Deposits.

The Bank's policy for suo moto renewal of deposits and for payment of interest on non renewal period (for the period between maturity and renewal) of the deposits must be reviewed; and control systems examined and reported upon, particularly in the EDP environment, where entries are automatically generated on due dates, without the mandatory issuance of the Deposit Receipt.

Term Deposits are normally expected to be renewed within 14 days of their maturity to take advantage of retrospective renewal/continuity of the deposit.

e) **Certificates of Deposits (CDs)**

Reference may be made to RBI Guidelines issued vide Master Circular **(FMD.MSRG.No. 38/02.08.003/2009-10 dated 1-7-2009)** for issue of CDs, which, though considered as a negotiable money market instrument, for issue in dematerialized form or Usance Promissory Note for a specified short term resource time period (7 days to 1 year for banks, without any lock-in period for the holders), are to be shown as Deposits as "CDs Issued", although these have all the characteristics of a 'borrowing'. These are normally issued at designated branches at a discount on the face value (based on negotiated interest rates – fixed or floating), and repayable only at the end of a specified period, i.e. on maturity. Being negotiable instruments, these attract stamp duty.

CDs can be issued in Demat or in physical form, and in the latter case is to be issued on security paper stationery, in denominations of Rs. 1.00 lac (FOR A SINGLE SUBSCRIBER) or in multiples of Rs.1.00 lac; and without the benefits of repatriation, if issued to NRIs and not for endorsement to another NRI. Other than for NRIs these are transferable by endorsement and delivery.

Pre-mature buyback is not permitted and no loans can be taken against CDs except those held by mutual funds keeping in view provisions of paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996..

Upon maturity, the relevant amounts become repayable on demand and are expected (as per R.B.I. instructions) to be treated as demand deposits.

NOTES AND INSTRUCTIONS-DEPOSITS(Contd.):

For audit purposes, the aggregate amount of such CDs issued can be verified also from the Fortnightly Return to RBI (SFR III – D –refer also Annexure II of the Circular)

Pro-rated expenditure by way of discount up to the year- end on each certificate must be accrued/adjusted and included under the head "Other Liabilities", as the terms of issue warrant the proceeds to be paid on maturity.

3. Savings Bank Deposits :

a) Savings deposit is a form of demand deposit (***by whatever name called***), which is subject to the restrictions as to the number and amounts of withdrawals permitted by the bank during a specified period. The above sub-head will include the aggregate of the savings bank accounts under various schemes and balances held in inoperative savings bank accounts.

b) **Interest accrued** upto the year-end on savings bank accounts which accrues and is due (***though not applied***) to the account holders, should be grouped with and form part of the amount disclosed against the above sub-head. Most banks apply interest and the credit the Savings Bank Accounts twice a year with a cut-off date prior to the year-end. Provision for the balance period upto the year-end may made at branches/Head Office, depending on the practice adopted by each bank. Thus, if interest is actually applied/credited to account holders upto January, then for February and March, ***the provision whether made at the branches/Head office, should form part of the amount disclosed against the sub-head "Savings Bank Deposits"***.

With effect from April 1, 2010, interest on savings bank accounts, which is presently calculated on the minimum balances held in the accounts during the period from the 10th day to the last day of each calendar month., is proposed to be calculated on a daily product basis in terms of RBI Circular **DBOD. No. Dir. BC.128/13.03.00/2008-09 dated 24, 4. 2009 and DBOD. No. Dir. BC 77/13.03.00/2009-10 dated 19-2-2010.**

c) ***Savings Accounts cannot be opened for Government departments/bodies* etc.*** as per clause 2.27(n)(i) of RBI Master Circular (DBOD.Dir.BC.11/13.03.00/2009-10 dated 1-7-2009, such prohibition not being applicable to organizations/ agencies as per Annexure 3 of the Circular. (*Government departments / bodies depending upon budgetary allocations for performance of their functions / Municipal Corporations or Municipal Committees / Panchayat Samitis/State Housing Boards/Water and Sewerage/Drainage Boards/State Text Book Publishing Corporations/ Societies/Metropolitan Development Authority / State/ District Level Housing Co-operative Societies, etc. or any political party or any trading/business or professional concern, whether such concern is a proprietary or a partnership firm or a company or an association).

4. Term Deposits:

a) Term Deposit means a deposit for a fixed period and which is withdrawable only after the expiry of such fixed period, and includes recurring/cumulative/reinvestment deposits/ cash certificates; and ***exclude Interest accrued and not due***, which must be included in "Other Liabilities and Provisions – Interest Accrued" in Schedule 5 annexed to the Balance Sheet. Deposits repayable after a ****specified term*** are required to be disclosed under the above sub-head separately for:

- Banks (which term is defined -refer Para 2(b) above), and
- Others.

(*Duration of "specified term" has not been stipulated)

b) ***Term Deposits from banks*** should normally be in round figures and reasons for the amounts being in odd figures(unless renewed with interest due), must be enquired into. In describing '**Money at call and short notice**' as an asset, R.B.I. has used both the terms "deposit" and "lent", which have relevance to the heads, Deposits/Borrowings. Such moneys being repayable after a "specified term", would have to be included as 'Term Deposits',

c) No fresh term deposits by way of NRNR (Non Resident Non Repatriable) and NRSR (Non Resident Special Rupee) can be accepted/renewed after 1.4.2002.

d) Banks have started renewing overdue term deposits suo moto despite formal instructions not being obtained from depositors. On maturity dates, the entries are automatically reversed in the ledgers(in the EDP environment); ***and it needs to be ensured that receipts are issued in physical form (Refer Para 2.21 of the Master Circular No11/13.03.00/2009-10 dated 1-7-2009), except in case of accounts frozen by authorities (refer Para 2.2D).*** Inadequate/loss of control over credits comprising DEPOSITS is a risk/fraud prone area and ***verification of receipts issued and held in its own custody by the branch, is a must (See Section K).***

Risks attached to such credits being misused, needs to be incorporated in the LFAR.

NOTES AND INSTRUCTIONS-DEPOSITS(Contd.)**5. Interest accrued and due should form part of the Term Deposits.**

Interest normally credited to various categories of deposits issued under special schemes, recurring deposits where interest is on compounded basis and is considered by banks as due, would be included in Term Deposits.

Interest accrued but not due (comprising provision made/estimated on Deposits for broken periods), are not to be treated as part of "Deposits" but as "Other Liabilities"

Particular care needs to be taken for FCNR(B) and other deposits in foreign currency, where interest accrues but is not due till normal maturity of each deposit; thus requiring a provision to be treated as part of "Other Liabilities".

6. Balances held in Foreign Currencies:

(Pound Sterling, US, Canadian and Australian Dollar, EURO and Japanese Yen)

Usually mid-rates of exchange are applied to year-end outstanding foreign currency balances. At the branch level, such year-end balances are converted at rates notified by the Controlling authority of the Bank; and copy of the relevant advice must be obtained and kept on the audit file.

In respect of FCNR(B) deposits, which can as per the aforesaid Circular, be received only from Non Resident Indians(individually or jointly, and not from Overseas Corporate bodies) **for periods of 1 to 2 years, 2-3, 3-4, 4-5 and 5 years only**, including by transfer from NRE Account(s); and interest on the deposits accepted under the scheme should be calculated on the basis of 360 days to a year, in the following manner:

- a) For deposits up to one year, at the applicable rate without any compounding effect,
- b) In respect of deposits for more than 1 year, at intervals of 180 days each and thereafter for remaining actual number of days, till normal maturity. However, the depositor will have the option to receive the interest on maturity with compounding effect.

Interest rates to be adopted by Management shall be within the limits prescribed by RBI, with penalty for premature encashment/conversion, except in case of death of the depositor.

7. Interest payment in special cases: No interest can normally be paid on Current Account or certain other type of balances. It can, however, be paid:**a) On Current Accounts:**

- to Regional Rural Banks sponsored by the Bank - at the rates as mutually agreed, and encouraged not to pay interest to RRBs on balances maintained with the Bank (Para 2.8 of Master Circular DBOD Dir.BC.11/13.03.00/2009-10 dated 1-7-2009);
- to claimants/legal heirs/nominees in case of deceased depositors, sole proprietorship concerns as per Para 2.17 of the Master Circular - interest to be paid only with effect from 1-5-1983, or from the date of the death whichever is later : at the rate applicable to Savings Bank Accounts on the date of payment; (incase of NRE Deposit where the claimants are resident, the deposit on maturity is to be treated as a domestic deposit, interest is to be paid for the subsequent period at a rate applicable to domestic deposit of a similar maturity; and

b) On Term Deposits (other than FCNR(B)- where the depositor dies:

Bank is required to lay down a transparent policy as per Para 2.17 of the Master Circular referred to above.

c) If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest (Para 2.3 of Master Circular for Re. deposits).**8. Inoperative Accounts:**

- a) A response to the letter addressed to the Branch (**Para 6 (e) of Annexure I**) will assist the Auditor to take a view on the system of dealing with Inoperative Accounts. Attention needs to be sharply focussed on debits/withdrawals to ascertain whether these are unauthorised. In testing the debits, attention should be specially paid to large and repetitive debits out of otherwise dormant accounts.

Centralisation of these needs to be encouraged and such a recommendation needs to be made through the LFAR.

- b) While scrutinising deposit ledgers, it is appropriate to ensure whether there are any stagnant/ inoperative accounts which remain to be transferred. Computer generated exception reports will also reveal the status of the Inoperative accounts.
- c) Internal controls over Inoperative accounts, is imperative. ***The identification and transfer to separate ledger sheets and withdrawal of "specimen signature" cards from active cards are important controls.***

[Reference may also be made to the RBI Master Circulars DBOD. No. Dir. BC.11 and 12 /13.03.00/2009-10 , both dated 1.7.2009]

NOTES AND INSTRUCTIONS - BORROWINGS

1. Legal requirements of disclosure:

I. BORROWINGS IN INDIA

- i) Reserve Bank of India*
- ii) Other Banks*
- iii) Other institutions and agencies*

II. BORROWINGS OUTSIDE INDIA

III. Secured borrowings included in I & II above

2. Normally borrowings take place in a few designated branches under due authority of the Head Office/controlling authority; and is in the shape of:
 - a) *Refinance* (against advances etc.) including by way of participation certificates on non-risk sharing basis; and
 - b) *Borrowings*.
3. Participation certificates on risk-sharing basis comprise amounts received (generally against "standard" advances), but in case of loan losses/bad debts the participating bank would have to suffer the risk of loss, based on the arrangements/agreement between the banks. The recipient branch advances should, therefore, be netted out to the extent of such participation.
4. **Where borrowings are shown by the Branch**, the auditor must ensure that the borrowings/refinance:
 - a) is separately disclosed as required by law;
 - b) balance confirmation certificates are obtained in evidence of borrowings from each lender; and
 - c) the nature and extent of security is determined and disclosed
5. Amounts received by way of **Bills of exchange rediscounted are not borrowings**, and the amount would be reduced from the head "Advances-Bills Purchased and Discounted" and contingent liability disclosed to the extent of rediscount obtained.

The relevant documentation/ correspondence/confirmation will establish as to whether the amounts are in the nature of refinance/rediscount. The present practice in banks is not to physically part with the Bills purchased and discounted and only a confirmation that these are held (as trustee) is given to the Bank/institution rediscounting the Bills. Money received by way of re-discount of bills are to be netted from Advances and disclosed as 'Contingent Liability' and the amounts received not treated as Borrowings.
6. **Certificates of Deposits** beyond the non-negotiable period are to be treated (at the discounted value at the year-end), as Deposits and not as Borrowings.
7. **Credit balances, if arising, in NOSTRO** represent Deposits repayable on demand **as also VOSTRO Accounts** which are akin to Current account balances and do not constitute borrowings **unless an overdraft/borrowing facility is obtained and evidenced on record.**

NOTES AND INSTRUCTIONS – OTHER LIABILITIES AND PROVISIONS:**1. Legal requirements of disclosure:**

- I. Bills Payable*
- II. Inter-office adjustments (Net)*
- III. Interest accrued*
- IV. Others (including Provisions)*

2. Bills Payable:

- a) Bills payable as at the year-end would comprise of undischarged liability in respect of Drafts Payable, Telegraphic Transfers, Mail Transfers, Cash Orders, Pay Orders, Banker's Cheques, Travellers' Cheques, Pay Slips, Gift Cheques and similar instruments.

The amounts required to be disclosed under the above sub-head comprise instruments issued by the bank (*or its duly constituted agents/correspondent banks in India or overseas*) against consideration received in cash or by debit to the account of the customer on whose instructions, the instrument was issued, such instruments constituting a monetary obligation of the Bank to be honoured at any branch of the Bank.

For the Bank, logically and as a rule, the credit precedes the payment/debit.

- b) Amounts deposited with the bank by constituents against cheques/instruments **issued by them** e.g. to pay dividend/ interest to shareholders/debenture-holders, in discharge of their (constituents') liability, will not be treated as part of 'Bills Payable'.
- c) Special care needs to be taken as regards old/large outstanding entries comprising Banker's cheques, Pay orders/slips **and particularly if these instruments remain undelivered**.
- d) **Internal controls/safeguards over unused security paper/stationery** which is used for the purpose aforesaid, is extremely important and total compliance of the internal control procedures is imperative. Any breach of system should be viewed seriously as this is a fraud prone area. **(Refer Section K)**
- e) Special care needs to be taken as regards debits comprising payments without receipt of advices/communications from the branches/offices/agents from which the instruments originated or issued; as also, in case of newly opened branches/accounts, where instruments of large amounts are presented for payment. Unmatched debits in the process of reconciliation or where there are no corresponding credits outstanding (including in Inter branch Adjustments, wherever the centralized system is followed).
- f) In some banks the practice at the Branch level, is to treat items relatable to the above head as on behalf of Head Office and the sum total of originating credit entries is transferred to Head office to be set off against the debits communicated by branches discharging the liability. The net credit as at the year-end on this account is treated as 'Bills Payable'. The debits/credits in such cases, are matched on the computer at Head Office, for the purpose of reconciliation as in case of other inter-branch items. The accounting procedure of the bank must, therefore, be understood. At the Branch level, the audit In-charge will ensure that the system is followed and call for the inward communications from H.O., particularly with regard to originating debits.

3. Inter-Office adjustments (Net)

- a) Reference may be made to the Notes and Instructions under the head '*OTHER ASSETS*' **and the verification programme would be the same** irrespective of whether at the Branch, the balances in sub-heads are at net debit/credit.
- b) While matching may be done on a centralised basis for debits/credits relatable to inter-branch items, the reconciliation process and adjustments have to be taken care of at the decentralized level. Unresponded entries are adjusted inter-se the branches based on communications:
- . from the centralized computer cell where matching of debits/credits is done, or
 - . directly exchanged inter-se the branches.
- (Provision for net debit unreconciled entries over 6 months would be required.)
- c) Special care needs to be taken to ensure that no items of **Inter Bank nature** creep into this head, where for instance there are Draft drawing arrangements with another Bank which is funded for this purpose.

4. Interest Accrued:

- a) **interest accrued but not due** must be shown under the above sub-head **only in respect of:** i) deposits; and ii) borrowings.
- b) **Interest payable on:**
- staff security deposits, - margin deposits, if any, not included in "deposits",

- *participation certificates on risk-sharing basis, - other items not included in deposits/borrowings, etc.* will not be disclosed under the above sub-head but would be included against the sub head "**Others (including provisions)**".

NOTES AND INSTRUCTIONS – OTHER LIABILITIES AND PROVISIONS (Contd.):

5. Others (including provisions):

- a) Under the above sub-head are to be included all residue items not covered by any specific head/sub-head, including:
 - . Unexpired discount/rebate on bills discounted i.e., where part of receipt comprising discount charges on bills purchased relate to the period beyond the year-end,
 - . Staff security deposits (and interest accrued thereon),
 - . Security deposits received from contractors etc.
 - . Cash margins against guarantees/LCs. etc.
- b) In finalising the Balance Sheet of the Bank, advances like LTA/Travelling etc. shown as part of "Other Assets", are correspondingly provided for; and are required to be netted while preparing the Bank's balance sheet. It is necessary to review the advances against expenditure to ascertain that provisions are made against the same. At the Branch level, the figures are not normally netted out and the auditor should look into the relevant H.O. instructions in this regard.
- c) Certain items are required by banks to be included under the above sub-head, but these (usual and necessary provisions), are not normally accounted for at the Branch level, e.g.,
 - . *Provision for taxation,*
 - . *Provision for loan losses,*
 - . *Surplus/Ad hoc provisions for doubtful advances and diminution in the value of investments,*
 - . *Contingency funds not transferred to or considered as part of published reserves, and funds earmarked for specific purposes,*
 - . *Proposed dividends/transfer of surplus to Govt. etc., and*
 - . *Provision for terminal benefits to employees.*

The Branch audit programme does not cover verification of these items, and the Branch ***Auditor's Report would be subject to the above provisions not having been considered/ made*** (Refer section D, DD and D.Q).

6. Long Form Audit Reporting requirements must be referred to and kept in view for reporting.

CASH AND BALANCES WITH RESERVE BANK OF INDIA: NOTES /INSTRUCTIONS:**1. Legal requirements of disclosure:**

- I. Cash in hand (including foreign currency notes)
- II. Balances with Reserve Bank of India:
 - i) In Current Account
 - ii) In other Accounts

2. Cash:

a) In physical verification:

- i) checking must be undertaken of all balances simultaneously at all locations **(including for extension counters and ATM(s), if operated by the Branch)**.
 - either before banking hours; or
 - after cash counters for public dealings are closed
 so as not to cause inconvenience to the branch in dealing with their constituents.

ii) actual counting may be undertaken for:

NEW NOTES - bundles with packing/seals intact should be counted

OLD NOTES - bundles with packing/seals intact should be counted with a sample check of few bundles

LOOSE/SOILED NOTES - should be counted in full

COINS - should be counted in lots or by weight.

(Use currency/ coin counting machines, if in vogue in the Branch)

iii) Notes/coins in sealed packets pending investigation/enquiry, should be accepted as such under a confirmation from the branch management and a note taken on record.

iv) ATM balances as per the daily rolls from the ATM Machine should tally with the book balance and unrecorded entries will comprise non debit to customers of the same or another branch or debits on other banks. Some banks have appointed agents and equip them with cash resources to stuff currency notes into the ATMs. It may become necessary to examine the account of such agents to ensure that they do not carry balances far in excess of normal requirement/norms, based on requirements.

The daily rolls/scrolls drawn from the ATMs also reveal in fructuous attempts to draw cash unauthorisedly. The Auditor may report this in the LFAR, in case he is of the view that this may involve a potential risk to the Bank.

- b) **Effect of inward foreign currency parcels originating from other branches prior to, but not recorded up to, the year-end must be reported.**
- c) Cash balances, if generally observed as varying **significantly** from the norms fixed by controlling authority for the Branch or those far in excess of normal requirements, must be covered in the Long Form Audit Report(LFAR). Normal requirements can be gauged from the inflow/outflow of funds (for the period covered by test) , such an item can be reported.

Large volume of soiled/unusable/non exchangeable notes not exchanged/ held since long, must be taken note of and reported in the LFAR.

This is relevant particularly if the branch has currency chest facilities or operates a local current account with another bank.

It would be necessary to review and report also on:

- inadequacy of insurance cover in relation to cash retention by the Branch,
- breach of H.O. instructions relating to effective joint custody of cash, and
- non-verification of cash at periodic intervals by the authorised officials.

[Refer Para 1.1(a), (b), (c) and (d) of the revised LFAR]

d) Refer to Head Office instructions relating to foreign currency rates.

CASH AND BALANCES WITH RESERVE BANK OF INDIA: (Contd.)**NOTES /INSTRUCTIONS:****3. Balances with Reserve Bank of India:**

- a) Only some branches are designated to have account(s) with Reserve Bank of India (RBI) and the audit procedure would be applicable only at such branches.

Withdrawals from or deposits into the Currency Chests operated at the branches of the Bank, have an impact on the RBI Account(s) maintained by the Bank at the designated branches, as all such withdrawals and deposits are expected to be simultaneously recorded in the said Account(s).

If the Branch that maintains a Currency Chest also has the account with RBI in its books, the entries for deposits into and withdrawals from the Currency Chest are made simultaneously (evidenced by Currency Chest Slips), in the account of the RBI maintained at the Branch. The Branch where the Account of RBI is maintained also acts as a Link Branch for other branches of the Bank, where they have Currency Chests, but do not have the Account with RBI in their books. In such branches, all withdrawals /deposits in respect of the Currency Chest, are communicated promptly through Inter Branch Advices for the accounting entries to be made in the Account of RBI at the Link Branch.

Entries originating prior to the year end, but communicated/recorded after such year end, should be reported through the MOC, if these continue to be part of the Inter branch entries as at the year end.

A review needs to be made of the entries originating prior to but responded after the year-end where the natural (RBI account) is not affected but entries may continue in the nominal heads of Account. This can be done by scrutiny of the relevant entries made after the year-end in the account of RBI.

- b) Where RBI account is maintained, the relevant balance confirmation/pass sheet **from RBI** must be obtained in evidence of the balance at the Branch as at the year-end.
- c) It would be advisable if a note is taken of old outstanding transactions in Bank reconciliation statements year-wise, separately for debit and credit items and a written explanation sought from the Branch Management as to the precise reasons for non-adjustment of these items. Unreconciled debit entries need provision, net of **related** credits.
- d) It would be appropriate to ascertain the periodicity of reconciliation of balances by the Branch with those as per statements/confirmations of Reserve Bank of India.
- e) In terms of the Master Circular No.DCM(CC) No.G-1 /03.35.01/2009-10 dated 1-7- 2009, the banks are obliged to follow the instructions with regarding daily reporting of Currency Chest Transactions by the banks in respect of branches to which Currency chests are attached; and non compliance of the RBI instructions invites levy of Penal Interest for delayed reporting/wrong reporting/non-reporting of Currency Chest transactions and penal measures for cases involving shortages/inclusion of counterfeit bank notes in chest balances/ chest remittances.
It is imperative to look into the effect of currency chest operations on the accounts of the Bank and report precise adjustments (Head-wise),required to be made. Even if the Branch is not maintaining an account with Reserve bank of India but operates a currency chest, this matter will have relevance as it may affect the account of RBI maintained at the link branch as aforesaid.
- f) The heads/sub-heads of account which get affected must be reported along with the figures, where entries are suggested in RBI Account.
- g) LFAR, as revised [**Refer Para 1.2 (b)(iii)**], requires reporting on unexplained/ unadjusted entries between 6 months and 1 year, and those above 1 year.
- h) ***Interest on balances maintained with RBI upto the year end needs to be verified. This may be centralised at one designated office. In case the non adjustment at the branch is not explained satisfactorily, this must be reported.***

BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE:

NOTES AND INSTRUCTIONS:

1. Legal Requirements of disclosure:

I. In India:

- i) **Balances with Banks:**
 - a) in Current Accounts
 - b) in other Deposit Accounts
- ii) **Money at Call and Short Notice:**
 - a) With Banks
 - b) With Other institutions

II. Outside India:

- i) in Current Accounts
- ii) in Other Deposit Accounts
- iii) Money at Call and Short Notice

2. Balances with Banks:

- a) Under this head would be included balances with other banks (State Bank of India, its subsidiaries and other banks/institutions), carrying on the business of banking. As per R.B.I., the term "bank(s)" would include banking companies, nationalised banks, S.B.I., associate banks and other institutions, including cooperatives carrying on the business of banking, ***whether or not incorporated or operating in India; and also would include NOSTRO Accounts.***
- b) **Balance confirmation certificates** produced in evidence of balances with other banks must be examined to ensure that these are issued by the other banks confirming, **as per their books**, the balances with the Branch being audited.
- c) It is recommended that large and unusual transactions, particularly towards the year-end be reviewed to determine their nature.
Any adverse observations should be considered in the report.

Banks branches using the Currency chests of other banks, should ensure that the entries are recorded through Inter Bank Adjustments, simultaneously with the deposit of /withdrawal of cash at such currency chests.

The manner of recording such entries is relevant; and it should be ensured that the responding entries are simultaneous and not cleared by receiving of bank drafts/bankers cheques with a time lag, where deposits are made.

- d) Generally, balances held in current accounts with other banks may be reviewed and reasons for holding unusually large and unutilized/stagnant balances with such banks, may be ascertained; and in case these are far in excess of those considered necessary, these should be reported in the LFAR; unless the Branch management has cogent reasons for holding such balances for long durations of time.
- e) Provision may be recommended for old/large unadjusted entries at debit, particularly where these cannot be satisfactorily explained, and if doubtful of realization.

Any item(s), deserving the special attention of the management including outstanding balances remaining unexplained/unadjusted for a period between 6 months and 1 year and those over a year must be reported in the LFAR.

- f) The bank reconciliation statements as at the previous year- end should be scrutinized and adjustments arising from pending entries therein reviewed to ensure that there is no forced/wrong adjustment thereof.

BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE: (Contd.)**NOTES AND INSTRUCTIONS:**

- g) **NOSTRO Accounts** are accounts maintained *in foreign currencies* with banks/correspondents overseas, for convenience of constituents' transactions in foreign currencies. These accounts are generally maintained at designated branches. *NOSTRO Accounts should invariably have debit balances; and reasons for credit balances need to be enquired into and adjustments routed through the Memorandum of Changes.* **Only the aggregate of debit balances in NOSTRO Accounts will be included under the above head.**

Review needs to be made of transactions originating in the accounts of the foreign banks/correspondents prior to but recorded by the Branch after the year end, as these have an effect on the closing balances, firstly in terms of foreign currency balances and the consequential effect on foreign currency conversion

Balances in **NOSTRO Accounts** must, therefore, be evidenced by confirmation certificates **and only after considering the effect of entries having impact on year-end balances, should the foreign currency balances be converted into Rupees; also to determine the profit/loss on exchange.**

If FAX/ e mail confirmations are available in respect of NOSTRO Accounts, a hard copy (**duly authenticated**), must be retained as part of the working papers.

(Note: VOSTRO Accounts are balances maintained(*in Rupees*), and operated by the foreign banks/correspondents - at designated branches of the Bank and are to be reckoned in the Deposits portfolio). Year-end confirmation procedures must be applied to Vostro balances as well.

3. Money at Call and Short Notice:

- a) According to R.B.I., Money at call and short notice includes deposits lent in the inter-bank call money market, repayable within 15 or less than 15 days' notice.

Amounts deposited/lent in excess of the said period should be disclosed as under;

- with banks-as Deposits(in Schedule 7-item I(i)(b)), or
- as Advances(in Schedule 9) depending on the nature of placement/deposit; or
- with other institutions-as Advances(in Schedule 9).

- b) Moneys at call and short notice can be placed:

- only at designated branches of the Bank, and
- only under due authorisation of the Head Office/ Controlling authority.

- c) Moneys at call and short notice are expected to be in round figures. If otherwise, enquiries must be made to ascertain the nature of lending, for correct classification thereof.

- d) It is recommended that adjustments may be checked for interest accrued on year-end outstanding balances of Money at Call and short notice, and subsequent realisations be verified.

NOTES AND INSTRUCTIONS - INVESTMENTS

1. Legal requirements as to disclosure:

I. Investments in India in:

- | | |
|------------------------------------|---|
| i) Government Securities..... | Cover central/State Govt. securities and Govt. Treasury Bills. |
| ii) Other approved Securities..... | Comprise securities as per section 5(a) of the Banking Regulation Act, 1949 - as per section 20(a),(b), (bb),(c), (d), (f), of the Indian Trusts Act, 1882. |
| iii) Shares | (of companies/ |
| iv) Debentures and Bonds | (corporations |
| v) Subsidiaries and/or)..... | include investments joint ventures) in subsidiaries/ associate companies and joint ventures. |
| vi) Others (to be specified)..... | residual investments like gold, commercial paper and other instruments |

II. Investments outside India in:

- | | |
|---|--|
| i) Government Securities
(including local authorities) | foreign Govt. securities including of local authorities |
| ii) Subsidiaries/joint ventures | share capital of abroad subsidiaries floated outside India |
| iii) Other Investments (to be specified) | residual investments |

Investments in/outside India have also to be disclosed separately at Gross Value, Provision for Depreciation and Net Value, as per the instructions of RBI applicable from the year 1996-97 onwards.

2. The work relating to Investments is generally centralised in most banks, and branches do not hold investments, except on behalf of the Head Office/ Centralised Investment Cell, generally for collection of income thereon.
3. Investments held in safe custody on behalf of constituents or as security against advances, even if held in the Bank's name should not be taken as the Bank's investments but as part of the documents comprising security for advances to borrowers. Accordingly, income received on the same is to be credited to the constituents' accounts.
4. Investments not physically verified or in respect of which no documentary evidence is available must be reported, with details thereof incorporated in the long form audit report.
5. The LFAR vide Para 1.4(A), requires response to items (a) to (e) of the questionnaire for branches in India.
6. The RBI Master Circular (DBOD No. BP. BC.3 / 21.04.141 / 2009-10 dated 1.7.2009), relating to the prudential norms on classification, valuation and operation of investments, must be seen; particularly as to the manner of valuation/carrying cost of investments shifted inter se the categories (Held to Maturity/Available for Sale/Held for trading).
6. Reference may also be made to the RBI Master Circular DBOD.BP.BC No.22 /21.04.018/2009-10 dated 1-7-2009 with regard to the additional disclosure requirements (also refer Section L and L.1).

NOTES AND INSTRUCTIONS – ADVANCES:**1. Legal requirements of disclosure:**

- A. i) Bills purchased and discounted
- ii) Cash credits, Overdrafts and loans repayable on demand
- iii) Term Loans
- B. i) Secured by tangible assets
- ii) Covered by Bank/Government guarantees
- iii) Unsecured

C. I. Advances in India:

- i) Priority sectors
- ii) Public sector
- iii) Banks
- iv) Others

II. Advances outside India:

- i) Due from Banks
- ii) Due from Others:
 - a) Bills Purchased and discounted
 - b) Syndicated loans
 - c) Others

As per the Prudential norms relating to the Agricultural Debt Waiver and Debt Relief Scheme 2008, the amount receivable from the Govt. of India as the crystallized compensatory claim (net of receipts), for agricultural debt waiver to eligible small and marginal farmers, is required by RBI Circular DBOD.No.BP.BC.26/21.04.048/2008-09 dated 30-7-2008, to be shown as Advances, in Schedule 9 - Advances; although strictly speaking the amount cannot be of the nature of advances and does not get covered under any sub head, nor can the sub-classification be made in items **B** and **C** above. The disclosure is similar in case of the DEBT RELIEF to Other farmers, for which the Scheme, expected to close on 31-12-2009, has been extended through the Budget announcement made on 26-2-2010 by the Finance Minister. This requires suitable Note in the Bank's financial statements.

2. It will be observed from the legal requirements of disclosure, that advances which are good and recoverable, are required to be disclosed and the classification is based on:

a) Nature and Maturity:

- **Short-term** - in respect of bills, cash credits etc.
- **Longer term** - in respect of Term loans, which are expected to be made for periods exceeding 36 months. (amounts include overdue installments)

**b) Security (of tangible assets, including against book debts treated as tangible),
Guarantees (by bank/Govt. including DICGC/ECGC)/ CGFSSI, and those **Unsecured**.
(Most of the Banks have given up DICGC coverage).****c) Location - in /outside India; the classification being further broken-up, including sector-wise as under for advances in India :**

- **Priority** - which includes public sector advances falling in priority sector.
- **Public** - includes undertakings which under statutes sector are treated as public sector.
- **Banks** - covers the banks, as defined.
- **Others** - covers residual category.

NOTES:1. Advances mean laying out of bank's funds and include overdrafts in Deposit Accounts, invoked guarantees, credit card dues; and exclude interest-free Advances as Employer to the employees. As per the Regulatory imposition on Banks, as stated above, the amount receivable from the Govt. of India towards Agricultural Debt Waiver as well as Debt relief, is also to be included in Schedule 9 - Advances.

*It would be useful to refer to **Section C IV** to have a broad understanding of the gross advances as recorded at the branch and the figures finalized and disclosed net of provisions etc. at the Bank level.*

2. There is no sub-head to show doubtful advances not provided for by banks.

The Branches which maintain the borrowers' accounts, would have to separately identify/disclose, in the branch returns, advances in accordance with the RBI applicable guidelines/ norms, so that (based on categorisation as sub-standard/doubtful/loss assets), provision is considered; and such provision must be to the satisfaction of the auditors. Provision (including prudential/floating/generic) and technical write-off etc. is usually considered at a centralised level as per the accounting practice prevalent in most banks.

4. Reference needs to be made to the RBI Master Circular (DBOD BP.BC No.17/21.04.048/2009-10 dated July 1 2009, - also summarized in Section E; and Master Circular DBOD.BP.BC No.22/21.04.018/ 2009 -10 dated 1-7-2009 with regard to the additional disclosure requirements in respect of Advances (section L and L.1)

NOTES AND INSTRUCTIONS – ADVANCES: (Contd.)

Provision for Advances, would, except in case of fresh/additional facilities in accounts subjected to restructuring, have to be determined based on categorisation of Advances **borrower-wise** as per the new norms - into **Standard, Sub-Standard, Doubtful** or **Loss** Assets. Proper categorisation will lead to the minimum bench-marked provisions being determined as per the applicable Regulatory norms; and income being generally accrued/recognised on Standard Advances and based on realisation in case of Non-performing advances (NPAs). **(Refer also Section E)**

Since provision for bad and doubtful debts has to be statutorily made to the satisfaction of the auditors, examination of the health status/categorization of the advances and provision required for bad and doubtful amounts constitutes a very important part of the audit.

4. It is imperative that the audit procedures cover:

- a) **Documentation** - *particular to the status of the borrower (individual/firm/company/Society/ Trust etc.)*
 - *particular to the nature of security (pledge, hypothecation, mortgage, lien etc.)*
- b) **Operation** - *whether the account of the borrower is stagnant or there is a healthy turnover*
- c) **Security/ guarantee** - *the existence and market value of Guarantee assets/security (primary/collateral)*
- d) **Advance** - *the balance and correctness of outstanding as at the year- end*

5. The nature and type of adverse features in respect of advances which would have a bearing on the health classification, would depend upon proper scrutiny of the advances accounts - borrower-wise for each of the facilities.

Attention is drawn to the LFAR requirements vide Item 1.5(a) to (e) thereof which must be looked into in depth.

It is recommended that notes may be taken indicating the nature of adverse features, preferably using numerical codes for the purpose of convenience; for example, notes/report could be taken in the form as per **Section C II.1 and C II.1.1.**

6. The **types of facilities** usually provided by the banks and the terms normally used in connection therewith could be in the form of:

- a) Hypothecation (Stocks, book debts, other movable assets, collateralized receivables).
- b) Pledge/lock and key facility (tangible movable assets).
- c) Mortgage of property (Registered/Equitable), usually as additional/collateral security
- d) Trust Receipts
- e) Overdrafts (against bank own fixed/term deposits, shares of listed companies, Life Policies, IVPs, KVPs etc. gold jewellery); or clean advances, which sometimes arise due to adverse balances in Savings/Current Accounts without any formal authority/sanction
- f) Packing credit (Pre-shipment/post-shipment) and other Export loans.
- g) Bills facilities (Overseas and inland Bills purchased and discounted, clean D.D.'s, Advances against bills for collection etc.).
- g) Consortium Advances, syndicated loans and on the basis of participation (on risk sharing/ non-risk sharing basis).

The funded facilities are sanctioned, based on appraisal; and the terms and conditions stipulated in documents executed (relevant to the legal status of the borrower and the nature of the facilities). *Copies of the agreements executed, need to be given to the borrowers.* The Banks also assumes obligations on behalf of its borrowers by way of guarantees, Letters of credit/comfort etc and performs agency functions on the basis of commission/fees.

Note: The terminologies and abbreviations used by the bank must be understood clearly when checking is undertaken to determine the nature of advance.

7. The operations in all major borrowers' accounts must be reviewed and should a detailed scrutiny be called for due to any unhealthy trends noticed, the account should be carefully looked into, including in the post-audit period. Large transactions, particularly as at the year-end, in accounts may be reviewed and detailed notes may be kept on record as to irregularities, if any, noticed in the course of audit in these accounts. A written note/explanation may be taken and kept on record as regards major/material irregularities in any account on which any observation is being reported, after obtaining for record, the Branch Management's view-point.

NOTES AND INSTRUCTIONS – ADVANCES: (Contd.)

8. In view of the large number of accounts at many of the branches the audit programme would involve in-depth checking of selected borrowers' accounts. The extent of checking/tests to be applied will depend upon the effectiveness or otherwise of the internal control procedures and the implementation of the standard procedures laid down by the bank. The matter of classification of debts into those considered good or doubtful would involve a fair view being taken of the debts party-wise including for large advances.
9. The Managements are obliged to determine the status/categorisation for the purpose of making provisions as per applicable norms of RBI. The satisfaction of the Branch auditor would however over-ride that of Management in the matter of classification and correspondingly, the quantum of Provision for advances, notwithstanding the categorisation by Management.
10. **For purpose of classification of the Advances, the following must be kept in view:**
- Documents, which are usually prescribed for each category of borrower/facility, are properly executed in each case examined and are complete and in force. **Blank documents** if held by the Branch in respect of any borrowal account, should not be accepted as proper documentation in any account.
Over - documentation having the effect of contradiction in terms for classifications must be reported.
 - Where documents are not reviewed/renewed for the stipulated period to classify the borrower as NPA, it should also be verified as to whether the limitation period has expired. Normally the Branch would have balance confirmations which extend the limitation period.
 - Evidence should be available on record as to:
 - Existence of assets/property charged as security (primary/collateral);
 - The market value of the security, which should preferably be got reassessed periodically, particularly in cases where the accounts are categorised as non-performing and are in the doubtful or loss category. The condition and quality of the movable assets and encumbrances to immovable properties, and factors which dilute the security, are relevant in valuation.
 - Credit guarantee cover of institutions like DICGC./ECGC/CGTSI and Banks (including cooperative banks).
Amounts covered only by guarantees including Banks/Govt. are to be considered as unsecured (not secured by tangible securities, even though they may be good for recovery).
 - Confirmation/evidence is available that:
 - hypothecated/pledged goods **are paid for by the borrowers**, and are not old/ obsolete or unsaleable.
 - advances against book debts of borrowers relate to their current debts and not old/ doubtful debts as per sanction terms.
(advances against book debts, not being against tangible assets, are unsecured. However, as per RBI directions these are to be disclosed in the financial statements, as secured, with a modification of the disclosure in the Balance Sheet).
 - insurance policies covering the assets comprising securities with the bank (primary and collateral) are available and in force as at the year-end and cover the Bank/Branch against any risk to the assets charged.
 - in case of companies, where the charge is required to be registered with the Registrar of Companies (except in case of pledge facilities) whether the certificate of Registration of charge or evidence of such charge having been registered, is held.
 - Whether borrowers are regular in complying with supply of the requisite information and financial data and particularly as to the value of properties lodged as security with the Branch.
 - Whether the financial data as to the party/guarantors, is kept upto date and is available for audit inspection. It may be relevant to state that it is the NET WORTH of the guarantors that is relevant in case guarantees are to be invoked.
 - Whether frequent overdrawing beyond Drawing Power/ sanctioned limits is permitted to the borrowers and whether there is a healthy turnover in the borrowers' accounts.

(Stagnant accounts and those in which the turnover is low should particularly be carefully looked into).

NOTES AND INSTRUCTIONS – ADVANCES: (Contd.)

- j) adverse comments, if any, on any borrowers accounts appearing in the latest available
- branch auditor's report(s),
 - inspection reports of bank officials/R.B.I,
 - manager's handing over charge report when incumbent is changed,
 - concurrent auditor's report(s),
 - any other special report covering advances,
- should not be ignored in making classification.

- k) R.B.I. guidelines as regards categorisation of borrowers into STANDARD, SUB-STANDARD, DOUBTFUL or LOSS ASSETS, are mandatory for the banks so that provisions, are considered; and income not realised is not recognised in NON PERFORMING ACCOUNTS. Previous year's classification for the purpose of considering provisions for doubtful debts is to be considered and not ignored for the year under audit where the health status of the borrowers' accounts is sought to be changed.
Attempt to upgrade classification resulting in reversal of provisions must be looked into.

11. Classification of advances may pose a problem in cases where the value of additional/collateral security over-laps the advances made by the Bank to the same borrower, which advances are required to be disclosed under the different sub-heads under the head 'Advances', e.g., immovable property may be collaterally mortgaged by the borrower to secure the bank in term loan as well as cash credit facilities. In the event of the borrower's accounts becoming doubtful of recovery and shortfall in the value of the primary security, the value of the collateral security to be spread over and made attributable to the advances in the different categories of accounts, would be difficult.

The categorisation of advances is to be made by the Bank, borrower-wise, based on examination of all accounts/facilities for each borrower, except as otherwise stated), and Provisions made as per RBI norms.

Though RBI has directed that in case of advances under consortium arrangements, the classification of the accounts would be determined only on the basis of the operations in the account with the Bank, independent of others, the auditor should carefully look into the health of the account, in case other banks have a classification more adverse than the bank, to see if it otherwise is intrinsically weak deserving a reclassification.

12. In respect of bills purchased and discounted, the auditor should in particular examine the following:
- a) Party-wise outstandings as at the year end.
 - b) Whether the bills are for genuine trade transactions and are current (and are not overdue/matured).
 - c) Documentary bills are supported by the relevant documents evidencing the security, e.g. R.Rs, L.Rs etc.
13. ***In case of consortium/multiple banking arrangements, the corporate borrowers are expected to comply with the RBI Guidelines and obtain certificates from a C.A./Company Secretary/Cost Accountant (Refer RBI Circular DBOD.BP.BC.46 and 110/08.12.001/2008-09 dated 19-9-2008 and 10-2-2009 respectively).***
14. Reference may also be made to:
- **Section E I** which summarises the RBI prudential norms and the Reckoner may be found useful as regards classification of Advances; and
 - **Section E II** for provisioning, based on categorization of the borrowers.

NOTES AND INSTRUCTIONS – FIXED ASSETS

1. Legal requirements as to disclosure:

1. Premises:

- i) At cost as at 31st March of the preceding year*
- ii) Additions during the year*
- iii) Deductions during the year*
- iv) Depreciation to date*

2. Other Fixed Assets:(including furniture and fixtures)

- i) At cost as at 31st March of the preceding year*
- ii) Additions during the year*
- iii) Deductions during the year*
- iv) Depreciation to date*

2. Premises:

- a) Normally this item is not dealt with at the Branch and all records are centralised at Head Office. In case the Branch accounts deal with this head of account the programme stated overleaf should be followed.

In case the documents of title to premises are held at the Branch on behalf of the Head Office/controlling authority, these should be verified as per instructions of such authority or on behalf of the statutory central auditors.

- b) The value of premises wholly or partly owned by the Bank for the purpose of business including residential premises, is required to be shown under the above head.

- c) The original cost, additions thereto, deductions therefrom during the year and the total depreciation written off upto the year end, is required to be disclosed.

(AS-6 requires depreciation for the year on each class of assets to be disclosed)

- d) The relevant sanction/authority of the Head Office/controlling authority must be examined with regard to additions/deductions.

- e) Buildings under construction, entries in respect of which would normally be recorded in a nominal head of account, should also be scrutinised to ensure that capitalisation where required is made when due.

- f) As per R.B.I. instructions, where sums have been written off on reduction of capital, or if there is a revaluation of assets, every balance sheet after the first balance sheet subsequent to the reduction or revaluation should show the revised figures for a period of five years, with the date and amount of revision made.

AS-10 (Accounting For Fixed Assets) requires disclosure of the method adopted to compute the revalued amounts, the nature of the indices used, the year of any appraisal made, and whether an external valuer was involved in case the assets are stated at revalued amounts.

NOTES AND INSTRUCTIONS – FIXED ASSETS (Contd.)

3. Other Fixed Assets (including Furniture and Fixtures)

- a) The audit procedures outlined overleaf should be followed in case the branch accounts incorporate the value of fixed assets.
- b) Additions/deductions must be checked with reference to original evidence available at the Branch along with authorisation of the competent Authority, even where, after acquisition/deduction, the transactions are communicated for being entered in the centralised records.
- c) Insurance coverage, if inadequate or policies not in force, must be reported in the Long Form Audit Report.
- d) Assets given on Lease need to be separately shown to the same manner as other assets.
- e) **As per AS-6 (Depreciation Accounting), information needs to be disclosed as regards:**
 - depreciation methods used
 - the historical cost or other amount substituted for historical cost of each class of depreciable assets
 - total depreciation for the period for each class of assets and related accumulated depreciation,
 - depreciation rates of the useful life of the assets, if they are different from the principal rates specified in the statute governing the enterprise.

Depreciation rates may be reconfirmed from the Accounting Policy of the Bank. Special attention is to be paid for the rate of depreciation on Computers.

(Note: RBI has directed that the **rate of depreciation on computers** be charged on SLM @33.33% - refer old Circular No. BP.BC 37/21.04.018/2000 dated 20.10.2000)

Depreciation on each class of assets should be disclosed in the Profit and Loss Account.

(f) Software Acquired

Banks may acquire software at considerable expenditure. The system of recording this expenditure as part of the fixed assets (so that it may be depreciated) or to defer expenditure (for amortisation over its useful life) may be reviewed. The Bank's Accounting Policy in this regard must be enquired into, and a note kept on record. Non provision for this intangible will not attract the provisions of Section 15 of the Banking Regulation Act, as per a notification specifically issued by the Govt. of India.

NOTES AND INSTRUCTIONS – OTHER ASSETS:

1. Legal requirements of disclosure:

- I. Inter-Office adjustments (Net)*
- II. Interest accrued*
- III. Tax paid in advance/tax deducted at source*
- IV. Stationery and Stamps*
- V. Non-banking assets acquired in satisfaction of claims*
- VI. Others @*

@ In case there is any unadjusted balance of loss (i.e. where the loss exceeds the aggregate of capital, reserves and surplus), the same may be shown under this item with appropriate footnote.

2. Inter-Office Adjustments (Net):

- a) Although all banks show this item separately in their annual accounts, a formal sub-head has been introduced in the schedule requiring disclosure of the net balance comprising inter-office transactions which are pending adjustment as at the year-end. **The method of recording such entries and their clearance must be understood.**

- b) **Originating debits** are not permitted in Head- Office account. There can be originating credits and responding debits in such an account. The transitory debits are kept in separate nominal sub-heads which deserve immediate attention for squaring up. The more liquid the transaction, the quicker should be the adjustment e.g. entries comprising cash remittances cannot be expected to remain outstanding at all. Credits invariably precede the debits in the Head Office account.

- c) A summary each of the daily debits/credits is prepared by each branch (H.O. Summary) which indicates the

- * Opening balance of Head Office,) (* must agree with the Branch General
- the day's debits,) Ledger Balance)
- the day's credits, and)
- * the closing balance,)

and these summaries are to be forwarded to the Head Office/designated office where MATCHING of debits/credits inter-se the branches is done.

This exercise throws up unmatched entries which are communicated to branches as follow-up measure for effecting reconciliation.

The terms "MATCHING" and "RECONCILIATION" must be properly understood.

- d) At the Branch level, the auditor should ensure that the system regarding preparation of H.O. Summaries and submission thereof to Head Office, is followed and no such summaries are pending. This can be done by a review of the file containing such summaries and correspondence from Head Office on the subject. It is recommended that the review should cover a period of 6-8 weeks, including the last two weeks of March.

The opening and closing balances as carried over in the summaries, must be checked with reference to the balances in the ledger; and any unusual/large entries should be reviewed in depth. If the ledger balance (H.O. Account) does not tally with the summary, it must be reported.

- e) The provisioning requirements for old outstanding debits in Inter-branch accounts continue to apply and need to be considered to ensure that net debits over 6 months as at 31.3.2010 are provided for without setting off debits in one category against credits in another.

NOTES AND INSTRUCTIONS – OTHER ASSETS: (Contd.)

3. Interest Accrued:

- a) Under the above sub-head should be included:
 - Interest accrued **but not due** on
 - . Investments
 - . Advances (including bills purchased and discounted)
 - Interest due but not collected on investments
- b) **Interest accrued and due** on advances is normally expected to be debited to the borrowers' accounts and shown as part of 'Advances'.
- c) Only such interest as is capable of being realised in the ordinary course, is expected to be recorded. This is in conformity with the Accounting Standard, "AS-9-Revenue Recognition" as also with instructions given by R.B.I. to the effect **that interest be not recorded as income in respect of Non Performing Assets.** Interest accrued in the current year in respect of accounts identified as NPAs must be reversed to Income and de-recognised and cannot be the subject matter of a provision. Income accrued for the earlier year and remaining unrealised, can be provided for or derecognised.
- d) Interest accrued on items other than Investments/Advances e.g. on items appearing as "Other Assets" cannot be included under the above sub-head but under the sub-head '**OTHERS**'.

4. Tax Paid in Advance/Tax deducted at source(TDS):

Normally this item is dealt with at Head office and does not appear in the Branch Balance sheet. Audit procedure is, therefore, not being enumerated for this item.

It is, however, the duty of the Branch Management to ensure that tax is duly deducted on all exigible items and is deposited within the prescribed period. Special attention needs to be paid to renewal of Fixed Deposit Receipts where interest is included, without deduction of Tax at source.

[At the Branch level, the auditor will verify and report (for Tax Audit Report), defaults in the matter of TDS(including non/short deduction wherever and/or belatedly paid)]

5. Stationery and Stamps:

- a) As per R.B.I. instructions, only exceptional items of stationery like bulk purchase of security paper, loose leaf or other ledgers etc.(which would include bulk paper stocks) should be valued and considered. It is recommended that this item should be treated as a "quasi-asset" to be written off over a period of time.
- b) The valuation of items of bulk stationery is suggested to be at cost/estimated cost without any element of escalation/appreciation.
- c) The extent of write off and basis thereof would have to be determined as per the policy adopted by the Bank Management. Instructions to the Branch in this regard from Head Office must be referred to.
- d) In large banks there are separate Printing and Stationery Cells which look after bulk procurements, printing of stationery and of its distribution. The branches usually do not stock large quantities. It is the intention to cut down elaborate accounting procedures on an item which is not material. The banks, while adopting a simplified procedure at the Head Office level, may still require the branches to prepare details of stocks and carry out physical verification procedures, as a matter of moral check.
- c) **Receipts, custody and dual controls over security paper stationery and verification is imperative by the Branch auditor, of stocks of such un-issued security paper comprising cheque books, DDs, TTs, Gift cheques, Pay orders, Travelers' cheques etc.**
Missing stationery of this nature may cause detriment/loss to the bank and must be reported.

NOTES AND INSTRUCTIONS – OTHER ASSETS: (Contd.)

6. Non-banking assets acquired in satisfaction of claims:

Under this sub-head is included value of immovable properties/tangible assets acquired in satisfaction of claims. The value should normally not exceed the estimated realisable value. Such an item may not exist in most of the branches.

7. Others :

(Note: This sub-head would include outstanding entries in suspense and other similar nominal heads of account and deserve special attention of the audit staff, particularly for old/unexplained/ large entries/ outstandings, a critical review of these must be made. RBI has also suggested a quick audit of entries in Suspense Account and the status thereof to be reported in terms of its circulars dated 6.7.95/18.8.95 and reference may also to be made to the old RBI Circular DBOD.BP.BC.4/21.04.018/2003-04 dated 19.7.03 (as regards reconciliation of Clearing Differences and Sundry/Suspense Accounts); which circulars continue to apply.

a) The items that would be covered by this sub-head would include all residue items not covered by any specific head. All nominal heads like 'Suspense', 'Sundry Assets' and with similar nomenclature are used by banks to record transitory entries which cannot be adjusted to the respective heads/sub-heads for want of particulars/details.

b) According to R.B.I., this sub-head will include

- items like claims which have not been met, for instance:
 - . *clearing items(i.e., debit balances comprising clearing differences).*
 - . *debit items representing additions to assets or reduction in liabilities which have not been adjusted for technical reasons/ want of particulars.*
 - . *advances given to staff like festival/drought relief/housing advances etc. due to the employer- employee relationship where normally lien is marked on the terminal benefits of the employee; but advances against FDRs and other securities etc. are also made.*

While distinction needs to be made between advances given by the bank as an "employer" and as "banker", the RBI's latest applicable circular needs to be kept in view as regards disclosure requirement of advances in the latter category i.e. as banker. Interest bearing advances are otherwise to be treated as advances.

- items in the nature of expenses which are pending adjustments. **These should be provided for and the provision netted against this item, so that only the realisable value is shown under this head.**

(provisions against debits of expenditure nature would have to be considered here).

- accrued income, other than interest.

(This may imply inclusion of dividends on shares held as Investments in subsidiaries etc., which income falls in Schedule 14 of the prescribed form).

(Note : Staff Advances are to be treated as Standard/Performing Assets and interest accrued thereon except in cases of Staff Suspension/dismissals etc. where there may be loss of pay etc.)

c) Besides the above, items like the following may normally be included against this sub-head:

- *Building under construction,*
- *Furniture, Fixtures and other fixed assets pending capitalisation,*
- *Advances to staff pending adjustments either against provisions made at Head Office (e.g. bonus payments), or other advances towards expenditure to be adjusted pending submission/clearance/sanction of claims (e.g. travel advance, L.T.C. advance etc.),*
- *Security Deposits (for electricity, telephones, tenanted premises etc. and advance rent/lease money) etc.*

- Prepaid Discount on Bills Rediscounted.

NOTES AND INSTRUCTIONS - CONTINGENT LIABILITIES:

1. Legal requirements of disclosure:

- I. Claims against the Bank not acknowledged as debts.*
- II. Liability for partly paid investments.*
- III. Liability on account of forward exchange contracts.*

IV. Guarantees given on behalf of constituents:

- a) In India*
- b) Outside India*

- V. Acceptances, endorsements and other obligations.*
- VI. Other items for which the bank is contingently liable.*

2. Claims against the Bank not acknowledged as debts:

- a) Against the above sub-head, would be included the amount comprising claims made by staff (under suspension/dismissal), constituents (e.g. for dishonour of cheques, frauds in customers' accounts due to negligence etc.) and any other matters in litigation which are contested by the bank and not acknowledged as a liability. Such claims may arise from Govt. bodies/authorities/others either under statute or through litigation/arbitration etc.
- b) It would be advisable to obtain an updated list of claims including those in the post-audit period upto the time the audit is finalised, to account for such claims which relate upto the year-end.
- c) Claims outstanding as at the previous year-end, if deleted should be enquired into, to be certain that these have not been deleted by mistake.
- d) Check/enquire whether the Branch has issued “**Letters of Comfort**” and whether liability for the same is disclosed.

3. Liability for partly paid investments:

This would usually be worked out by the Investment Department at Head office, and normally no figure should appear in the Branch returns, unless the value of investments is decentralised at some branches.

4. Guarantees given on behalf of Constituents:

{Reference must be made to the RBI Master Circular on Guarantees and Co-acceptances (DBOD. No. Dir. BC. 14 /13.03.00/2009-10 dated 1.7.2009)} - Also refer to the LFAR requirements.

- a) Guarantees are issued on behalf of customers as part of the agency functions of the bank, and for which the bank charges commission. There is no outlay of the bank's funds till a claim arises from any claimant/beneficiary in whose favour guarantee is issued.
- b) Guarantees issued may be specific to particular transactions or a series of transactions involving assumption of obligations upto certain monetary limits. Guarantees are issued for certain specified time limits and have a claim obligation, unless the guarantee is renewed.

Such obligations are assumed by issuance of a guarantee document normally signed by the authorised signatories; and the bank normally obtains as a security, either a cash margin based on a percentage of the obligation or holds fixed deposits and in some

cases marks a lien on the account of the customer. It also obtains counter-guarantee to be invoked in case the obligation devolves.

NOTES AND INSTRUCTIONS - CONTINGENT LIABILITIES: (Contd.)

- c) Entries are imperative in the guarantee register for each guarantee issued. The entries are expected to be reversed upon expiry of the guarantee/claim period, though in practice the bankers wait even for return to it, of the relevant documents, out of abundant caution. **The auditor must report expired guarantees where the claim period has also expired and the financial obligations have ceased, which continue to be included as part of the contingent liability.**
- d) Guarantees are expected to be issued only on security paper stationery under dual control. It is imperative that internal control for recording of guarantees is looked into to ensure that entries are made immediately upon assumption of guarantee obligations.
- e) ***Letters of comfort(LOCs), involving liability assumed must be treated as akin to guarantees issued. Reasons for issuing LOCs need to be ascertained. Most importantly, these must be examined to determine whether these comprise any funded exposures by or on behalf of the bank, particularly if these are to overseas banks/associates/branches in foreign currencies, to fund suppliers in respect of purchases made by the bank's borrowers under Trade (Suppliers') Credit arrangements.***

5. Acceptances, endorsements and other obligations:

- a) This item which used to be shown as 'contra' in the earlier form, has now become an off-balance sheet item under the above sub-head and would include:
 - Letters of credit opened by the bank on behalf of its customers,
 - Bills drawn by the customers and accepted or endorsed by the bank to provide security to the payees.
- b) Letters of credit are documents under which the bank agrees to meet the obligations of its customers (usually for purchases/imports).

Letters of credit are normally issued on certain terms, conditions and stipulations, against guarantees of the customers and may be with/without security/margin. Upon honouring the commitment and making payment to the other bank/party, the amount is debited to the bank's customer and treated as an advance; and the margin/security is adjusted depending upon the conditions of the L.C.

The Bank may retain as a percentage of the value of the L.C., a cash margin or take Term Deposit Receipt(s) or mark a lien on the account of the customers, to enable it to appropriate such credits in the event of a default by the customer in not honouring his commitment to the bank.

5. Acceptances, endorsements and other obligations:

- **Such Letters of credit may be:**
 - . **clean,**
 - . **documentary** - where bills drawn are accompanied by documents of title to goods
 - . **revocable** - entirely at the pleasure of the bank at any time prior to shipment of goods
 - . **irrevocable or confirmed**
 - . **for single transaction or bill-** covering purchases/ imports,
 - . **"revolving"** to cover a series of transactions within certain limits/value, sometimes restrictions being placed on limit of each bill.

NOTES AND INSTRUCTIONS - CONTINGENT LIABILITIES: (Contd.)

6. a) Obligations assumed in foreign currency:

It is the practice of some banks to record the Rupee equivalent of the contingent liability on the date of assumption of the liability in case these are in foreign currency. Such a liability needs to be expressed in Rupees, converted at the year-end rates.

b) Common errors:

The common mistakes made by Branches are

- . not to take the correct totals of the liability recorded in various registers,
- . not to remove liabilities which have lapsed/cleared, and
- . not taking action in case of defaults.

In some cases, the relevant columns in the Balance Sheet formats are not disclosed.
These need to be reported.

7. Other Items for which the bank is contingently liable:

- a) This would include all residue contingent liabilities not covered under any other sub-head and as per R.B.I. instructions, includes:

- . *arrears of cumulative dividends (in case of companies),*
- . *bills of exchange rediscounted, **which must not include matured bills.***
- . *commitments under underwriting contracts,*
- . **estimated amount of contracts remaining to be executed on capital account and not provided for.*

(*It may be relevant to state that this item cannot really be considered as a contingent liability, but R.B.I. instructions require Banks to include this item under the above head.)

NOTES AND INSTRUCTIONS - BILLS FOR COLLECTION:**1. Bills for collection**

a) **do not involve an outlay of the Bank's funds** as this stems from the agency function of banks. The banks earn commission for rendering service relating to collection of bills for their customers. Bills not collected are, therefore, normally returned to the customers, and by and large only current outstanding bills should figure in the accounts of the branch. Old entries should provoke enquiries.

b) could be of the nature of clean D.D.s., Documentary demand/Usance Bills or cheques; and INWARD BILLS would be from branches or others and OUTWARD ones to branches or others.

Internal entries inter-se the branches covering bills for collection are to be excluded in the figure to be disclosed against the above head by the Bank.

2. Normally detailed records are maintained for bills received or sent for collection, including particulars in Despatch registers, acknowledgements etc. which may provide information as to whether or not these have been expeditiously forwarded as per instructions relating to collection of the bills.
3. **Bills in hand** should be physically verified on the date of the first visit as also by surprise check on any subsequent date; and it should be ensured that the bills held, tally with the entries in the relevant register(s) maintained. In the case of documentary bills it should be ensured that the related R.R.s./T.R.s. are held along with the Invoices/Hundies/Bills and that these have not been parted with. Whenever such R.R.s./T.R.s. are not held on record, the fact should be reported, giving details.
4. **It is imperative that bills expressed in foreign currencies are properly converted at year-end rates of exchange advised by H.O./controlling authority.**
5. The auditor should enquire whether there are any claims against the Bank on account of bills which may have been lost in transit involving the bank in any proceedings/claims or possible liability.

To avoid risks of this nature, the Bank's procedure may involve obtaining from the drawers(customers), a letter of undertaking to indemnify the bank against risks involved in collection of bills. In the event of a detriment/loss caused, the banks are also normally covered by the "Bankers' blanket insurance policy".
6. Since this is an off-Balance sheet item, the branch managements have a tendency to be casual and ignore casting errors and omissions in the matter of recording bills as also the fact that they do not follow up old entries to square up the items..
7. Reasons for old unadjusted entries need to be enquired into and reported in the LFAR.

PROFIT AND LOSS ACCOUNT**NOTES AND INSTRUCTIONS - INTEREST EARNED:****1. Legal requirements of disclosure:**

- I. Interest/discount on advances/bills
- II. Income on investments
- III. Interest on balances with Reserve Banks of India and other inter-bank funds
- IV. Others

IMPORTANT (Income Recognition):

Income can be recognised only on standard or performing assets.

Income on Non Performing Assets (NPA) cannot be accrued at contractual rates and must not be recorded as income except on actual realisation. The practice in some Banks is to credit Interest Suspense Account, and reverse it to income on the basis of realisation.

Interest on NPA if recorded, will be reported by the auditors unless the same is on the basis of realisation.

Loans up to Rs. 2.00 lacs generally carry the prescription of not exceeding the Benchmark Prime Lending Rate (BPLR), as made applicable to all branches and above this level of lending, the Banks fix the lending rates within the directives of the RBI (refer RBI Master Circular DBOD. No.Dir. BC 10/13.03.00/2009-10 **dated 1-7-2009**), to Interest Rates on Advances); however with a transparent policy laid down by the Board, for charging lower than such BPLR rates in case of exporters and other creditworthy parties and PSUs. Except in case of lending up to Rs. 25000, penal interest may be charged in case of specified defaults in servicing of the advances by the constituents.

Except in case of agricultural advances, where charge and compounding of interest is linked to crop seasons (for long duration crops on yearly basis and others based on due dates fixed on considerations of harvesting/marketing season etc.), interest is required to be computed and charged at monthly rests; and compounded in a manner that the monthly charge and compounding do not exceed the contractual effective rate per annum, as documented, with a clearly stated clause that the rates of interest shall be subject to change made by the RBI.

2. Interest/discount on advances/bills:

- a) With intentions of more disclosure, the break-up of income "earned" is required in the Profit and Loss Account of Banks; and under the above sub-head the banks would be required to disclose earnings by way of:
 - interest on Term/Demand loans; and
 - discount on bills purchased and discounted.
 i.e. income in respect of the Advances portfolio of the bank is to be shown against this sub-head.

b) At the Branch level, the income is expected to be disclosed at gross figures - and not netted off (to the extent of usual and necessary provisions).

Income figures are now expected to be disclosed at gross figures, except as discussed in para(c) herein-after. As per R.B.I. instructions, the amount earned by way of discount, has also to be shown at gross figures and the rediscount charges paid (in case of rediscount of bills) have not to be reduced from the income.

- c) Advances to customers are expected to be disclosed by the banks, net of moneys received by way of participation (on risk-sharing basis). Correspondingly, the interest paid on such participation can logically be reduced from the income earned - as the real earning of the bank would be the net figure (being the interest differential between that charged from the borrower and the participating bank/institution).

- d) Overdue interest and interest subsidy earned upto the year-end in respect of advances has to be included under the above head.

- e) On all loans the contracted rate is applicable throughout, and interest rates for the time being in force are to be applied, unless rate is constant as per the terms of sanction. It is imperative, therefore, to ascertain the rates applicable and changes therein during the year-under audit.

Unapplied interest on NPAs (except those in litigation) must be computed at contracted rates.

PROFIT AND LOSS ACCOUNT**NOTES AND INSTRUCTIONS - INTEREST EARNED: (Contd.)****3. Income on Investments:**

Normally this is on centralized basis and audit procedures are not being enumerated in the Branch audit programme. Income, if any, collected by the branch on investments held on behalf of the Head Office/Investment Department, is expected to be recorded only at Head Office.

In case any income on investments is recorded at the Branch level, it may be vouched with reference to the authority/instructions of Head Office.

- a) As per R.B.I. instructions, income derived from the investment portfolio by way of:

- interest ; and
- dividend,

has to be included under the above sub-head.

- b) It will be observed from the prescribed form, that "income earned by way of dividends from subsidiaries/and/or joint ventures abroad/in India" is to be shown in a separate schedule under the head "OTHER INCOME". Such income will therefore, not be treated as from the "investment portfolio" although investments in subsidiaries etc. are treated/disclosed under the head "INVESTMENTS".

4. Interest on balances with Reserve Bank of India and other inter-bank funds:

- a) Included under the above sub-head would be interest on:

- balances maintained with R.B.I.,
- money market placements (including money at call and short notice), and
- call loans/deposits with banks,

- b) In most cases, it is the Head Office (normally through its Investment Department) that monitors money market placements and balances with R.B.I. and accordingly, in the branch returns, no such income should normally appear. In designated branches where Head office/ controlling authority may have permitted the operation of such accounts, the authority of the Head Office/controlling authority to transact such business would have to be examined; and the income required to be recorded at the branch be vouched accordingly.

5. Others:

- a) Interest/discount other than that recorded under the other sub-heads, would have to be shown in this residue sub-head.
- b) Under this sub-head would be included interest on items like:
- staff advances (given by the bank as an employer/banker)
 - security deposits for rented/leased premises/Electricity etc. and on advances/deposits for booking assets where, as per terms and conditions applicable, interest is recoverable, i.e. on assets recorded under the head "OTHER ASSETS" in the Balance Sheet.
- c) Interest on Inter-branch Account must be examined with reference to relevant HO advices. The profit /loss of the branch is inclusive of such transfer pricing entries.

PROFIT AND LOSS ACCOUNT
NOTES AND INSTRUCTIONS - OTHER INCOME:

1. Legal requirements of Disclosure:

- I. Commission, exchange and Brokerage
- II. Profit on sale of investments
Less: Loss on sale of investments
- III. Profit on revaluation of investments
Less: Loss on revaluation of investments
- IV. Profit on sale of land, building and other assets
Less: Loss on sale of land, building and other assets
- V. Profit on exchange transactions
Less: Loss on exchange transactions
- VI. Income earned by way of dividends from subsidiaries/
companies and/or joint ventures abroad/in India.
- VII. Miscellaneous Income

(Under items II to V loss figures may be shown in brackets).

2. Commission, exchange and brokerage:

- a) Under the above sub-head, is to be included earnings on services rendered, such as:

Commission:

- on collections,
- or exchange on remittances and transfers,
- on letters of credit/ guarantees,
- on Govt. business,
- on other permitted agency business (including consultancy and other services),

letting out of lockers, and

brokerage etc. on securities.

- b) Foreign exchange income is not to be included here, as the same is required to be separately disclosed.
- c) **Brokerage and commission in connection with Merchant banking activities** is also required to be considered under this sub-head unless it is received on underwriting obligations on devolved liability; in which case, the investments would be shown at net of the brokerage/ commission attributable to such devolvement.

3. Profit on sale of Investments (less Loss):

- a) Only the net position of profit/loss on sale of investments has to be disclosed by the Banks in their annual accounts. Since in most banks, the investment portfolio is centralised, no figures on this account would appear in the branch returns; and the audit procedures are, accordingly, not being enumerated.
- b) In case the Branch returns include such figure, ascertain basis thereof and vouch the transactions, in the light of authority from the Head office/controlling authority - after examining the system/ basis of accounting for profit/loss on disposal of investments.

PROFIT AND LOSS ACCOUNT**NOTES AND INSTRUCTIONS - OTHER INCOME: (Contd.)****4. Profit on revaluation of investments (less Loss):**

- a) This item would appear only at the Head Office, in case the Bank decides to revalue its portfolio.
- b) Valuation as at the year-end of the investments, for the purpose of adjusting depreciation on investments is not tantamount to revaluation.
- c) Reference may be made to disclosure requirements as regards 'CAPITAL RESERVES' in the Bank's Balance Sheet under the Head "RESERVES AND SURPLUS". As per R.B.I. instructions, surplus on revaluation should be treated as Capital Reserves. Read with this, the only manner of disclosure can be to route the surplus on revaluation of investments through the Profit and Loss Account by including it in "APPROPRIATIONS".
- d) Since the matter is dealt with at Head Office, the audit procedures are not being enumerated.

5. Profit on sale of land, buildings and other assets (less Loss):

- a) Besides Profit/Loss (net) on sale of fixed and other assets, the net profit/loss on revaluation of such assets is also required to be shown here.
- b) As regards surplus on revaluation, reference may again be made to the disclosure requirements under the head "RESERVES AND SURPLUS - Capital Reserves".
- c) Other assets would include Non-banking assets acquired in satisfaction of claims.

6. Profit on Exchange transactions (less Loss):

- a) The net figure would have to be shown under the above sub-head; and the transactions would include:
 - Profit/loss on dealing in foreign exchange,
 - commission earned by way of foreign exchange,
 - commission and charges on foreign exchange transactions, **excluding interest.**
- b) The figures would appear at branches which have foreign exchange dealings or are authorised dealers in foreign exchange.

7. Income earned by way of dividends from subsidiaries/ companies and/or joint ventures abroad/ in India:

This would appear only at the Head office/ investments Department of the Bank

8. Miscellaneous Income:

Under the above sub-head would be included:

- godown rent recoveries from customers,
- income from bank's properties (other than locker rents),
- security recoveries, and
- any other miscellaneous income.

PROFIT AND LOSS ACCOUNT:**NOTES AND INSTRUCTIONS - INTEREST EXPENDED:****1. Legal requirements of disclosure:**

- I. Interest on deposits
- II. Interest on Reserve Bank of India/inter-bank borrowings
- III. Others

2. Interest on deposits:

- a) It is necessary to ascertain for the year under audit, the rates, and terms and conditions on which deposits are accepted, so that the calculations and interest application is correctly accounted by the branch, and tested in the course of audit. The relevant circulars from the Head Office/ controlling authority need to be examined to report deviations, if any, therefrom. **Reference must be made to the RBI stipulated rates- See Para (f).**
- b) The auditor should ascertain the method followed for recording interest in the deposit accounts at the Branch as well as for accrual of liability upto the year-end.

Where requests are made to pay interest on deposits by means of Pay Orders/Bankers Cheques, care may be taken to ensure that in respect of such deposit, provision/accrual is not again made and credit afforded again to the depositor.

c) Interest payment in special cases:

No interest can normally be paid on Current Account or certain other type of balances. At present interest can, however, be paid:

On Current Accounts:

- to Regional Rural Banks sponsored by the Bank - at the rates as mutually agreed, and encouraged not to pay interest to RRBs on balances maintained with the Bank
- to claimants/legal heirs/nominees in case of deceased depositors, sole proprietorship concerns as per Para 2.17 of the Master Circular - interest to be paid only with effect from 1-5-1983, or from the date of the death whichever is later : at the rate applicable to Savings Bank Accounts on the date of payment; (incase of NRE Deposit where the claimants are resident, the deposit on maturity is to be treated as a domestic deposit, interest is to be paid for the subsequent period at a rate applicable to domestic deposit of a similar maturity; and

d) On Term Deposits (other than FCNR(B)- where the depositor dies:

Bank is required to lay down a transparent policy as per Para 2.17 of the Master Circular referred to above.

- e) **If a Fixed Deposit Receipt matures** and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest (Para 2.3 of Master Circular for Re. deposits).
- f) **Review may be made of credits in Interest Expended Accounts** to determine nature thereof and to ensure that credits are appropriate and do not relate to income heads.

[Reference may also be made to the RBI Master Circulars DBOD. No. Dir. BC.11 and 12 /13.03.00/2009-10 , both dated 1.7.2009]

3. Interest on Reserve Bank of India/inter-bank borrowings:

This item would not normally be dealt with at the Branch.

In case there are borrowings recorded at the branch, the basis and terms of interest application must be seen and the entries vouched in toto.

4. Others:

- a) Included under the above residue sub-head, would be payments like:
 - Interest/discount on borrowings/refinance from financial institutions,
 - interest on participation certificates(on non-risk sharing basis),
 - penal interest, etc.
- b) It is only at designated branches/offices that this would be recorded.

5. Interest paid to Head Office:

This items, if appearing in the Branch returns, is an internal adjustment (inter-se the branches) and has no effect on the revenue of the Bank. If recorded, this will be checked on the basis of the relevant advice(s) from the Head Office.

NOTES AND INSTRUCTIONS - OPERATING EXPENSES:**1. Legal requirements of disclosure:**

- I. Payments to and provisions for employees
- II. Rent, taxes and lighting
- III. Printing and stationery
- IV. Advertisement and publicity
- V. Depreciation on bank's property
- VI. Directors' fees, allowances and expenses
- VII. Auditors' fees and expenses (including branch auditors' fees and expenses)
- VIII. Law Charges
- IX. Postages, Telegrams, Telephones, etc.
- X. Repairs and maintenance
- XI. Insurance
- XII. Other expenditure

PROVISIONS AND CONTINGENCIES**2. Payments to and provisions for employees:****a) Under this sub-head would be included:**

- staff salaries/wages,
- allowances (including house rent allowance),
- bonus,
- gratuity,
- pension,
- provident fund,
- liveries to staff,
- leave fare concession,
- staff welfare, medical allowances etc.

b) There is no requirement to separately disclose managerial remuneration, which may get covered otherwise through AS 18 - Related Parties.**3. Rent, taxes and lighting:**

It would be advisable to go through the terms and conditions relating to the tenanted premises; to ensure that adjustments are as per the current obligations as per the tenancy arrangements. Also enquire whether there are any pending disputes as regards Rent enhancements, Municipal dues or electricity bills etc., that require adjustments or disclosure of any contingent liability.

4. Printing and stationery:

Ascertain the system followed for charging off expenditure under the above sub-head with reference to H.O instructions. For the Bank, the bulk purchases of stationery, are to be treated as a quasi-asset to be written off over a period of time. The policy in this regard may be enquired into.

5. Depreciation on Banks Property:

It would be advisable to understand the system adopted to adjust depreciation on fixed assets; and follow the H.O. instructions.

6. Repairs and Maintenance:

Scrutiny should be made of this account to determine whether any item requiring capitalisation has been charged off, particularly in Branch renovation expenditure.

7. Other Expenditure:

Scrutiny should be made of the various major account heads included in this-particularly Travel expenses and any unusual expenditure may be vouched.

8. Other Provisions:

While reporting, it is necessary to determine as to the items of expenditure that are usually provided or adjusted at Head Office and make reference thereto in the report.

Items usually omitted to be recorded is the provision for rent, professional charges, concurrent auditor's fee and payments for Security and Maintenance service contracts (which must be net of TDS as applicable. Such expenditure should be provided for.

NOTES AND INSTRUCTIONS - GENERAL:

1. The audit procedure outlined under the head '**GENERAL**' is recommended to be covered, and would give an idea as to the general housekeeping of records. Review of routine transactions for one day is recommended for the reason that one would become broadly familiar with:
 - the nature and flow of transactions;
 - the manner of recording these;
 - the terminologies used;
 - internal control procedures.
2. It is recommended that suitable letters may be addressed to the Branch Management seeking information which is relevant to expediting the audit procedures and to seek confirmations as regards certain matters. Refer **Sections A and B**

It is imperative to obtain responses to each item in writing.

3. The audit file must be properly maintained to adequately document the notes/observations/working papers/certificates etc. in evidence of work done, and to be the basis of the reports submitted.
4. The notes/observations taken head-wise, should be segregated to be incorporated into the relevant reports to be submitted. **It is important to note that the Long Form Audit Report (to the Management) is not a substitute for the main audit Report to be furnished by the Branch Auditor to the Central Statutory Auditor.**

Items having a material financial effect on the accounts and those covered by the statutory responsibilities of the auditor must be considered in the main report; and such reports must be in clear, unambiguous language with quantification of all qualifications, unless the quantification is not possible.

For text of the Main audit reports and the manner of reporting, reference may be made to Sections D , DD and D.Q (which is illustrative).

Reference may be made to:

5. **Section F** as regards the questionnaire of the Long Form Audit Report applicable to bank branches.

The primary responsibility for response to the questionnaire is that of the Branch management; and the auditor is expected to verify the information furnished and express his opinion thereon.

6. **The figures in the Branch returns once finalised and communicated to Head office, are not changed. The branch auditor may only report any changes that he wishes, based on his audit observations, through the Memorandum of changes, which will form part of his report.**
7. **In respect of frauds reported/recorded at the branch**, it would be advisable to study the modus operandi and adopt extended tests and in depth checking in areas which appear to be more risk prone at the branch.
8. Averages based on month-end figures of deposits, borrowings and of advances may suffice for working out the trends of interest earned/expended; and to determine divergent trends, if any.

BANK: _____ ZONE: _____ REGION: _____ BRANCH: _____

SPECIAL ATTENTION NEEDS TO BE PAID TO ADVANCES OF THE NATURE GIVEN BELOW (FOR PROVISIONING AND INCOME RECOGNITION/DERECOGNITION) Year 2009-10 (Refer also to Para 7 Annexure I in Section A)

Nature of Advances Accounts		WHETHER EXAMINED		REMARKS (for report)
		YES	NO	
1	<u>Adversely commented accounts in latest reports of:</u>			
	RBI (Accounts in which there is divergence with RBI)			
	Concurrent Auditors			
	Inspection			
	Statutory Auditors (including in LFAR)			
	Latest Quarterly review			
	Other Reports, including Credit Audit Reports			
	Advances where the erosion in security value is more than 90%			
	Accounts with adverse features in stock audit reports			
2	Standard/sub standard Accounts in litigation/dispute			
3	BIFR cases classified as Standard			
4	Standard Accounts in default			
	Irregularity due to non submission of stock statements for 3 months and such irregularity persisting for 90 days thereafter			
	- Non review/ renewal of limits within prescribed period - Others in default in servicing of interest/installments			
5	Standard Accounts with Interest (Suspense/Unapplied)@			
6	Wilful defaulters in advances lists			
7	<u>NPAs upgraded to standard</u>			
	a) Restructured Advances			
	b) Standard Advances having Interest Suspense/ Unrealised Interest @			
	c) BIFR cases			
	d) Other accounts upgraded			
8	Restructured Accounts - Standard Advances			
	a) With outstandings less than Rs. 1.00 Crore each			
	b) Other Advances in excess of Rs.1.00 Crore each			
	Where applications/proposals are pending at the year end –required for reporting provisions to be made			
	Where applications were disposed of			
	i) special regulatory treatment accounts			
	CDR advances			
	others			

BANK: _____ ZONE: _____ REGION: _____ BRANCH: _____

SPECIAL ATTENTION NEEDS TO BE PAID TO ADVANCES OF THE NATURE GIVEN BELOW (FOR PROVISIONING AND INCOME RECOGNITION/DERECOGNITION) Year 2009-10 (Refer also to Para 7 Annexure I in Section A)

		ii) Other Accounts not subject to special regulatory treatment			
	c)	FITL out of amounts in default			
9		Restructured Accounts - NPAs			
	a)	With outstandings less than Rs. 1.00 Crore each			
	b)	Other Advances in excess of Rs.1.00 Crore each			
		Where applications/proposals are pending at the year end –required for reporting provisions to be made			
		Where applications were disposed of			
		i) special regulatory treatment accounts CDR advances others			
		ii) Other Accounts not subject to special regulatory treatment			
	c)	FITL out of amounts in default			
10		Critical amounts due as identified			
11		Fresh NPAs during the year as identified at the Branch			
12		Major problem accounts			
13		Quick Mortality Cases (accounts becoming NPA within 12 -24 months of sanction)			
14		One time settlement Accounts in default			

Notes: 1. @ Except Central Govt. Guaranteed Advances where guarantee is not invoked/repudiated

2. Report Standard Accounts where there are arrears of Interest/income

(Part of audit working papers on Audit File)

C1.1

BANK **ZONE:** _____ **REGION :** _____ **BRANCH :** _____
OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2010
(based on analysis of Annexure III and for purpose of reporting)
Name of the Borrower _____
OBSERVATIONS OF BRANCH AUDITOR _____

1. Whether the Borrower requires reclassification	Yes@	No	Whether reported in MOC		whether reported in LFAR	
2. Has these been frequent devolvement of LCs	Yes	No	Yes	No	Yes	No
3. @Justification/observations requiring change in classification:						

@ based on examination of the related account and to be reported as per the MOC

Signature of Audit Assistant

BANK _____ **ZONE:** _____ **REGION:** _____ **BRANCH:** _____

SUMMARY OF ADVERSE OBSERVATIONS ON ADVANCES ACCOUNTS AS AT 31.3.2010 (Illustrative)

Name of the Borrower	Type of Facility	Account No.	Year End Balance (Rs.)	Remarks- Adverse Code @	Classification Code *		Valuation of security @@		Financial Effect of observations		Remarks
					By Bank	Recommended by Auditor	By Bank (Rs.)	As per Auditor (Rs.)	Provision (Rs) (+) (-)	Income (Rs.) (+) (-)	
ABC	TL	140	59,783	1.5,1.6.3 1.10(b)	A	C		12,000 for all facilities	(+)	(-)	Doubtful over 3 years since 31-3-2007
	CC	234	28,733	1.11,1.13	B	C			(+)	(-)	
	Bills	38/04	1,05,734	2.2,2.4,3.1	B	C			(+)	(-)	
			----- 1,94,250 =====								
DEF	TL	45	68,528	2.2,2.4,3.4	B	B.1		55,00,000 for all exposures	(+)	(-)	Realisable security is less than 10% of total exposure
	PC	2013	2,01,05,273	3.10,3.11,4.4	B	B.1			(+)	(-)	
	CC	5231	5,07,83,724	4.6,4.17	B	B.1			(+)	(-)	
			----- 7,09,57,525 =====								

@ Refer to description of Coded Adverse Features{ (Annexure C II.1.1 (PAGES 2 - 7))}

@@@ Wherever the auditor disagrees with the Bank

*CLASSIFICATION → A. STANDARD
B. SUB-STANDARD;
B.1 SUBSTANDARD(20%)
C. DOUBTFUL(100%)
C.1 DOUBTFUL(OTHERS)
D. LOSS

Code Nature of Irregularities/ Adverse features**1. CREDIT APPRAISAL:**

- 1.1 Loan application form not obtained / not on record.
- 1.2 Loan application not complete in all respects or not signed.
- 1.3 Borrower's name, whether figuring in the list of wilful defaulters of RBI not checked/ indicated (Refer RBI Master Circular DBOD No. DL.BC. 16 /20.16.003/2009-10dated 1-7-2009).
- 1.4 Information not given as regards borrower being a Director of the Bank/another bank or of being an officer or a relative of any Director/ officer of the Bank.
- 1.5 Credit appraisal made for borrowers:
 - a) in the "negative" list of the bank.
 - b) where the borrower is a defaulter/NPA with other banks/ institutions.
- 1.6 All documents / annexures required with the application form not received by the Bank, including:
 - 1.6.1 Documents evidencing nature / type and legal status of entity such as Memorandum & Articles of Association, Partnership Deed, Trust Deed etc. (not received/called for).
 - 1.6.2 Latest financials (duly audited) and / or updated unaudited financials not obtained and / or not reviewed (including in particular the Notes on Accounts, off balance sheet disclosures and the report of the auditors on the accounts where audit is required/done);
 - 1.6.3 Audited statements if received are incomplete – without Accounting Policies / Notes / Audit Report.
 - 1.6.4 Half yearly/quarterly review reports (listed entities), not received/reviewed.
 - 1.6.5 Cost / secretarial audit, if required, not got done, or no report thereof available.
 - 1.6.6 Credit report not obtained from previous bankers / existing bankers from whom account is being shifted, and reasons for such shifting not justified.
 - 1.6.7 Credit Reports of borrower/guarantor not obtained, or inadequate, as regards material particulars
 - 1.6.8 Evidence on certain matters included in financial statements/financial status not obtained/reviewed (e.g., copies of Vat/Sales tax/ Income tax/Wealth tax returns/orders).
 - 1.6.9 Credit reports of borrowers/guarantors, not reviewed.
 - 1.6.10 Adverse features reported upon in Inspection / audit not considered in appraisal in respect of continuing advances / for enhancement in limits. (eg. off balance sheet exposures, dealings with other bankers, major variations between audited data and QIS to branch).
- 1.7 Techno-economic feasibility report not obtained.
- 1.8. Industry / group exposure and experience of the Bank not dealt in the appraisal note.
- 1.9. Bank's policy norms for inventory/book-debts/creditors levels not followed as stipulated by the management.

Code Nature of Irregularities/ Adverse features

- 1.10. Adverse features observed in reports of concurrent Auditors/ Statutory Auditors/ RBI Inspection/LFAR not incorporated in the appraisal note, as arising from:
- a) RBI Inspection/
 - b) Concurrent Audit
 - c) Inspection Audit
 - d) Internal Audit
 - e) Statutory Audit/LFAR
 - f) Stock Audit
 - g) Special Audit/Credit Audit
 - h) IT/EDP/Systems Audit
- 1.11 Explanations not called for, or not justified, in respect of major variations between projected and actual financial data furnished.
- 1.12 Credit rating form not attached with credit appraisal note, or if attached, not reviewed.
- 1.13 Opinion reports of the associate and / or sister concerns of the borrower not called.
- 1.14 Appraisal of fresh limits made to cure existing defaults in NPA accounts.
- 1.15 Frequent resorting to short review procedures rather than full review of borrowal account.
- 1.16 Bank's rights to recompense not considered in appraisal where recoveries of earlier sacrifice are being made.
- 1.17 General level of compliance in the past not indicated.
- 1.18 Diversion of funds for purposes other than those intended, in the past not considered (including working capital funds being used for long term deployment).
2. **SANCTIONING AND DISBURSEMENT:**
- 2.1 Proposals sanctioned without the approval of the higher authority / signature of the concerned authority.
- 2.2 Facilities disbursed before the completion of documentation and other sanction terms.
- 2.3. Adhoc limits granted pending completion of appraisal/sanction of regular limits.
- 2.4. Disbursement made without following procedures relating to confirmation of higher authority as regards completion of formalities.
- 2.5. Sanctions in excess of delegated authority.
3. **DOCUMENTATION:**
- 3.1 Documents on record are blank, all parts not filled up and / or without signatures of Branch Manager and witnesses.
- 3.2 Documents signed by persons other than those authorised.
- 3.3 Inappropriate set of documents having no nexus to the status of the borrower.

Code Nature of Irregularities/ Adverse features

- 3.4 Signatures of the executants on all the pages of the documents not found and not obtained on all corrections / endorsements in the documents.
- 3.5 Documents have become mutilated / soiled, or have expired and the bank is exposed to the risk of not enforcing the security.
- 3.6 Consortium advances – documents not yet executed or not on record.
- 3.7 Consent from other lenders for creation of security, not on record.
- 3.8 Guarantee papers not on record / not renewed.
- 3.9 Revival letters not received.
- 3.10 Certification of Registration of charges with ROC / or evidence thereof not on record, in case of companies.
- 3.11 LIC Policies (together with evidence of surrender value), not obtained or not on record.
- 3.12 Bank's FDRs (lien marked) not obtained or not on record
- 3.13 KVPs not obtained or not on record.
- 3.14 IVPs not obtained or not on record.
- 3.15 Second charge on assets, as per terms of sanction, not created in favour of the bank.
- 3.16 Under-stamping of documents, and Stamping not being as per the amended Stamps Act (particularly for immovable properties)
- 3.17 Work completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans.
- 3.18 Original Staff and other Housing loan documents not on record at the Branch.
- 3.19 Sales / search report / Title Clearance Report from advocate in respect of immovable property not obtained or on record.
- 3.20 Mortgage for property not created, as required.
- 3.21 Clearance not obtained from Authorities concerned to permit mortgage.
- 3.22 Copies evidencing lodgment of the original conveyance / sale deeds with the sub-Registrars for registration, not on record.
- 3.23 Authority letter / Power of Attorney to the Bank to collect the original documents from the Sub-Registrar, not on record.
- 3.24 Loans granted on properties on the basis of Power of Attorney and not ownership.
- 3.25 Valuer's report in evidence of gold / gold ornaments not obtained.
- 3.26 Registration certificates, transfer certificate, driving license, duplicate keys of vehicle and insurance covers not obtained, in case of loans against vehicles.

Code Nature of Irregularities/ Adverse features

- 3.27 "Nil Encumbrance Certificate/s " or "No Dues Certificate/s" or "No lien Letters" not on record.
- 3.28 Consent letter not obtained from borrower that the Bank would publish his name in the list of defaulters, in the event of wilful default in repayment of the Bank's dues.
- 3.29 Clause/ stipulation as regards interest rates variations to be as per RBI norms, not notified or on record.
- 3.30 Other documents stipulated as per sanction not on record (specify).

4. REVIEW / MONITORING / SUPERVISION :

- 4.1 Non compliance of major / repeated adverse features in Audit reports / inspection in relation to borrowal accounts.
- 4.2 Stock, book-debts statements / financial statements / other operational data etc., not received regularly, or belatedly received from the borrower.
- 4.3 Stock Audit not got conducted and / or latest report not on record.
- 4.4 Major discrepancies / variations in the stock and other securities (between the annual audited financial statements / stock audit report and the financial data / returns to the Branch).
- 4.5 Non-movement of goods in pledge accounts (particularly perishable goods) and accumulation of old stocks.
- 4.6 Drawing Power not properly worked out, based on non deduction of:
a) Non-moving stock,
b) unpaid for stocks,
c) old book debts, and
d) margins as stipulated.
- 4.7 Physical verification of securities not done at periodic intervals, and action not taken on major adverse observations based on Inspection reports.
- 4.8 Frequent requests for ratification of transgressions.
- 4.9 Statutory Liabilities not being paid, or being belatedly discharged, with constant fall back on the bank.
- 4.10 Age-wise break-up of debtors not on record.
- 4.11 Penal interest not charged for delay in submission of various statements.
- 4.12 Drawing power / limits not updated / revised, as per market value of securities where advances are against shares / securities.
- 4.13 End use of funds not ensured; and diversion if observed, not attended to.
- 4.14 Account is frequently / continuously overdrawn.
- 4.15 Frequently invoked LCs / guarantees
- 4.16 Actual performance is well below projections.
- 4.17 Sale proceeds not routed through Bank and credit summations are on the decline.
- 4.18 Audited statements of non-corporate borrower having limit beyond Rs. 10 lacs not received (including Notes on accounts, accounting policies and Auditors Reports).

Code Nature of Irregularities/ Adverse features

- 4.19 Renewal proposals of advances are not received on time and/ or limits not renewed / reviewed within the stipulated norms (180 days).
- 4.20 Balance confirmation and acknowledgment of debt not obtained.
- 4.21 Life Policies taken as primary / collateral not sent for assignment in favour of the bank.
- 4.22 Insurance cover is inadequate, policies not on record / not renewed / not endorsed in favour of the Bank.
- 4.23 Tendencies of expired bills / foreign currency sight bills becoming overdue frequently and not getting crystallised when due.
- 4.24 Frequent cancellation of bills and substitution of unpaid bills.
- 4.25 Confirmation as to genuineness of export transactions not obtained from Bank's foreign offices / correspondents / customs department.
- 4.26 For import credit, Bill of Entry evidencing import of goods not available.
- 4.27 Documents not obtained for bills discounted under Letters of Credit.
- 4.28 Advances requiring guarantee cover of ECGC not brought under its cover.
- 4.29 Guarantee not invoked although accounts are irregular and called back.
- 4.30 For allocated limits, full terms of sanction, stock statements, inspection reports, margin etc, not available or available with considerable delay at monitoring branches.
- 4.31 In respect of Consortium arrangements (particularly where others are categorising the borrower as NPA)
 a) Regular meetings not held with other consortium members to review / assess performance of borrowers.
 b) Members of the consortium not advised about the quarterly operating limits / D. P.
 c) Minutes of the consortium meetings not found on record.
 d) Inspection reports from the consortium member not obtained.
- 4.32 Capital of the borrower has eroded / net worth is negative / decreasing.
- 4.33 Cases where adhoc limit remained unadjusted more than 3 months after due dates.
- 4.34 Copies of invoices and other evidence in relation to purchase of assets financed by the bank not available for verification.
- 4.35 Application of wrong rate of interest, processing charges, commission, other charges, etc. (e.g. due to wrong credit rating / non-revision thereof from effective dates).
- 4.36 Account becoming a case of "quick mortality" within a short time of sanction (within 12/24 months).
- 4.37 Margins created out of book adjustments upon purchase of bills.
- 4.38 Income accrued at branch on Advances categorized as NPAs.
- 4.39 Wrong appropriation of recoveries in NPAs.
- 4.40 Right of recompense not recorded/ invoked, if stipulated at the time of sacrifice earlier made in the borrowal account.
- 4.41 Leakage of income due to PC-cum-CC limits (where PC facilities are being wrongly credited to CC to take advantage of lower interest rates)

Code Nature of Irregularities/ Adverse features**5. ADVANCES-other Adverse features:**

- 5.1 RBI prudential norms not followed (including in cases of substantial erosion of realisable security).
(Substantial erosion (of more than 50-90%) of the security to migrate the advance to Doubtful/Loss category).
- 5.2 Existence of saleable/ realisable security in serious doubt.
- 5.3 Dilution of security and / or Valuation Report of Security / collaterals, not available.
- 5.4 Installment / interest not received regularly, and default of 90 days or more.
- 5.5 Legal or other action for recovery of advances not taken, although authorised by the Board / Controlling Authority.
- 5.6 Terms of the BIFR scheme not complied.
- 5.7 Default in fresh facilities sanctioned pursuant to BIFR orders.
- 5.8 Delays in the settlement / repayment, in respect of one time settlement / compromise proposals and sacrifice not adjusted.
- 5.9 Payment from government for invoked guarantees not received, although guarantees were unconditional, irrevocable and payable on demand.
- 5.10 Compromise proposals pending at various levels where local government / outside agencies are involved as guarantors.
- 5.11 Irregular / sick / sticky advances not reported to higher authorities.
- 5.12 Adverse decisions in litigation, not considered.
- 5.13 Credit card dues not serviced.
- 5.14 Advances to new borrowers notwithstanding that they are defaulters in other banks/ institutions.
- 5.15 Restructured Doubtful Accounts and fresh facilities by way of funding unserviced interest, not considered for categorization/provisioning.
- 5.16 Repeated rephasing/ restructuring in the same account for evergreening the account.
- 5.17 Non-reckoning of the default in borrowal accounts transferred from other banks/branches, affecting the classification thereof.
- 5.18 Copies of the Loan Documents not given to the Borrower at the time of the sanction or Disbursement
- 5.19 Non obtaining of certification in respect of Corporate borrowers under Consortium/ multiple banking arrangements from a C.A/Company Secretary/Cost Accountant.

1. Introduction

- **Increased computerisation comes bundled with new concepts of “risk”**
 - Bank Managements and the Auditors should understand and address these risks.
- In February, 1998, keeping this aspect in view RBI had come out with a Guidance note for banks operating in computerized environment.

2. Audit Risks

These are the same as applicable to paper based banks. Broadly these are:

- I. Mismanagement of Assets**
- II. Incorrect financial Statements**
- III. Non-Compliance with laws and regulations**

<u>Characteristics Of risks</u>	<u>Paper based</u>	<u>Computer Based</u>
Audit Trail	• Visible • Easily certifiable • Adjustments are apparent	• May not always be available • Even if available may not be always generated • Generated Audit trails may not be understood
Volume	• Low level • Limited by speed of manual processing	Huge volumes possible
Records	• Maintained together • Physical Security vital	• Electronic • Sorted by business requirement • Stored anywhere in the world
Complex transactions	• Slow to process • Error prone	Consistent processing

3. Audit Trail

Audit Trail is a means of tracing all activities affecting a piece of information such as a data or a record from the time it enters the system to the time it ends where intended i.e. from input to output. For example, when several people are working on a document in a networked environment, an audit trail makes it possible to know at what stage and who made a change, or even to see a document before and after that change.

4. IT environment risks

- Statutory and Regulatory
- Strategic
- Organisation
- Location
- Outsourcing

5. Statutory and Regulatory Risks

The Bank's computer system should have the ability to respond to the changing requirements of law and regulation, as otherwise there can be:

- Risks due to the change in legislative framework not being effectively addressed or not being addressed on time
- Risk of non-compliance on account of changes in regulations of the supervisory authority or the government

6. IT Operations Risks

- Error
- Interruption
- Disclosure

7. Transitional Action within the Bank

In January 1998 RBI had compiled a guidance note to guide banks on:

- backup of old records
- retention of records in the system
- preservation in electronic media

(Imperative that this area is examined, as on switch-over to the computerized system, there may remain old unexplained, unreconciled and hence unadjusted entries)

INTERNAL CONTROL PROCEDURES

a) Segregation of Duties between

- * Authorising Supervisors and clerical officers
- * Programmers and computer operators
- * Asset record keepers and asset custodians

b) Software access control

- Examine the procedures for adding and deleting users
- Password control procedures
- Report on attempted access violations, including on ATMs
- Re-perform investigations on attempted violations

c) Physical access control

- Whether unauthorized staff gains access
- Whether program and data files are under control of proper authority

9. Completeness of output based on accuracy of inputs

- all source documents are received and transactions are entries/updated to a file
- Transactions that are lost, missing or duplicated during processing are detected/presented.
- Rejected transactions are subsequently updated.

10. Computer generated data

(Daily ***normal*** and ***exceptional*** reports on ***systems*** and ***transactions*** assume importance)

- Whether seen by appropriate persons and attended to
- File Continuity
 - Check whether opening balances agree with the print out of the earlier data
 - Check sample reconciliation reports
 - See whether these are authorized by appropriate persons

11. Verification through exceptional reports

Examine the daily exception reports for:

- transactions
- system

and whether effective action taken by appropriate independent authority on a daily basis.

12. Computer calculations

- Manually check a few calculations
- Re-perform a few calculations

13. Computer summarization

- Check manually with a listing of the transactions
- Arrange a special run and compare the results

14. Categorising and updating

- Check posting for a sample period

15. Authorisation of transactions

Ensure that, as per the system:

- only bona fide transactions are processed
- transactions are authorised
- unusual transactions are identified

16. Detailed cycle level controls

Ensure complete, accurate and valid data to avoid duplication/errors in data.

17. Total cycle controls

- output of one update is used as input for the next update
- Prompt recovery in case of processing failure

The audit staff must enquire as to the results of any internal inspection/audit/concurrent audit of the EDP systems to gauge any weaknesses that would have effect on their audit planning, and the audit risks they need to address.

Special attention also needs to be paid to the back-ups and access thereto from off-site storage locations as part of the disaster recovery management in the bank; and particularly whether these have been tested.

Enquire into areas of manual intervention in the EDP data/information generated and the related control procedures that may be risk prone.

C IV

BANK BRANCH AUDIT
SUMMARY OF ADVANCES OF THE BANK AS AT 31ST MARCH (for information) ...1
Amount(Rs.)

	TOTAL	1 x	2 @	3 xx
GROSS AMOUNT IN BORROWERS' ACCOUNTS ..	..	..	..	..
AT THE BRANCH LEVEL (includes for credit cards and interest bearing staff advances)				
Add:				
a) Debit balances in Deposit Accounts	..	..	..	..
b) Invoked Guarantees/devolved L/Cs	..	..	..	..
	---	---	---	---
TOTAL (A)	..	..	..	..
	---	---	---	---
Less:				
a) Amounts pending appropriation e.g. Credit Guarantee claims, including ECGC/ CGFT(SSl) claims/other amounts recovered and held as liability/ advances- related subsidies.	..	..	..	
b) Interest applied in borrowers' accounts but not recorded as income and held at credit in interest Suspense or similar Account	..	..	..	..
c) Income derecognised on amounts identified as NPAs during the year and included in (A) above (+)	..	..	..	
d) Participation on "risk sharing basis" - outstanding amounts, if held as liability	..	..	..	..
e) Bills rediscounted, if included in (A) above (as per procedure applicable at Branch level)		..	..	..
f) Advances held at branches but written off/ Prudentially written off at H.O. ..	..	..		
	---	---	---	---
TOTAL (B)	..	..	..	..
	---	---	---	---
GROSS ADVANCES (A-B) OF THE BANK	..	..	..	..
Less: PROVISION (For sub-standard/ Doubtful/Loss Assets) (+) @@	..	..	..	..
	---	---	---	---
Balance as per Balance Sheet	..	..	..	..
	---	---	---	---
x Bills purchased and discounted				
@ Cash Credits, Overdrafts and Loans repayable in demand				
xx Term Loans				

Notes (Refer page 2)

BANK BRANCH AUDIT

SUMMARY OF ADVANCES OF THE BANK AS AT 31ST MARCH (for information)....2NOTES:

1. Advances (non-interest bearing) to employees, (such as Leave Fare Concession Advance, Festival Advance, Drought Relief Advance) should not be treated as part of the Advances portfolio but are to be considered as part of "OTHER ASSETS-Others". However, if staff advances are interest bearing, these will be part of the Advances Portfolio.
2. Where borrowers' accounts are identified for the first time as NPAs, the unrealised income recorded in the borrowers' accounts, including for Govt. advances, must be reversed, and
 - a) to the extent recorded as the current year's income, be derecognised/not treated as income; and
 - b) to the extent recorded as the income of the immediately preceding financial year, must be provided for, unless the laid down procedure of the Bank warrants the reversal of current year's income for such (earlier year's) unrealised interest.
3. Where income is accrued in advances treated as "Standard" by the Bank Management, but such accounts are re-classified as sub-standard, doubtful or loss assets in finalising the accounts, **such interest income accrued but not realised, has also to be reversed, so that the provision can be worked out on the amounts, net of such reversal.**
4. Provisions in excess of those necessary for Advances, would have to be treated as of the nature of "reserves" and not deducted from the "Advances". Provision made on adhoc basis for standard advances would also be of this nature. *Provisions in respect of Standard Advances will be part of OTHER LIABILITIES (Schedule 5) while for NPAs it will get reduced from Advances in Schedule 9. This applies to restructured Advances as well. Normal provisions need to be segregated from provision for sacrifice in restructured accounts that will be retained in a separate account, as also for FITL, carved out of interest in default.*
5. Provisions are required to be made to the satisfaction of auditors, and if in the opinion of the auditors, provisions made/recommended by the Bank Management as per the prudential norms of RBI are lower, the auditors would have to qualify their report indicating the shortfall.
Provision for standard advances depends on the nature of advances with sub classification, and care must be taken to determine the same properly.
6. Debit/adverse balances in Deposit Accounts would normally be 'unsecured' advances.
7. Where recoveries are made and realisation of income is recorded, it may be ensured that the credits in the borrowers' accounts are appropriated in the following order, preference being given to the oldest debits:
 - a) Charges, not recorded/reversed; thereafter
 - b) income not realised/recorded earlier;
 - Interest Suspense
 - Unapplied Interest
 - Recompense amounts (earlier deferred in cases of sacrifice).
 - and thereafter**
 - c) the principal amount,**UNLESS the realisation is accompanied by instructions otherwise from the borrower.**
Care must be taken to ensure that to the extent the borrowers' accounts are credited, the unapplied charges and income, and right to recompense, are first applied and debited to the relevant accounts.
8. Interest should not be accrued as income on accounts identified as non-performing, and after the date of the last application of interest in the borrowal accounts the interest

BANK AUDIT - ASSET-LIABILITY MANAGEMENT**Guidelines on disclosure in the annual accounts for the year 2009-10**

Besides additional disclosures relating to movements in NPAs and lending to sensitive sectors. The Reserve Bank of India has prescribed the following additional disclosures to be made in the annual financial statements of the banks:

1. Maturity Pattern of:

- a) Deposits
- b) Loans and Advances
- c) Investment Securities
- d) Borrowings

2. Foreign Currency Assets and Liabilities

The RBI directives coincide with the introduction of **Asset-liability Management System (ALM)** in Banks during the year 2000-2001. Since the disclosure requirements are mandatory in nature, the banks would already have devised appropriate forms and returns to ensure that the required data is expeditiously available from the branches for consolidation and incorporation thereof in the annual audited accounts.

The disclosures on the items mentioned above are required to be attested by the Auditors, since these form a part of the audited information. To the extent relevant, the branch auditors need to certify the information at the branch level; and to the extent they are not satisfied on the basis of the computation at the branch, they may qualify their report.

1. MATURITY PATTERN OF DEPOSITS

The deposits of a Bank can broadly be categorised as under:

A. Demand Liabilities

These do not have specific maturity patterns, and comprise:

- Deposits in current accounts
- Savings Bank Deposits
- Credit Balances in Cash Credit/Loan accounts
- Overdue/ matured deposits

By definition these being repayable "On Demand", it is difficult to predict the likely pattern of the repayment of such deposits, and would, therefore, necessitate sophisticated statistical techniques or other methods and procedures to determine the likelihood of outflows/maturity patterns.

This exercise may necessarily have to be carried out at the centralised level by the Banks.

B. Time Liabilities

These have relatively predictable maturity patterns, and generally such liabilities fall into the following categories:

- Fixed Term Deposits (with interest payment plans during the tenure/period of the deposits),
- Term Deposits in Re-investment schemes
- Cumulative Time Deposits (where interest is compounded)

BANK AUDIT - ASSET-LIABILITY MANAGEMENT

These include inland and foreign deposits and inter-bank term deposits, in respect of which relevant data would be required to be prepared by the branches.

Time Liabilities are required to be classified according to actual residual maturity of the relevant deposits as at the year-end..

Residual maturity means the balance time that remains for the deposit to mature, calculated from the year-end.

The data so prepared on individual deposits is required to be aggregated to fall into specific period tranches, called **TIME BUCKETS**.

Based on there are as many as 8 time buckets for the purpose of reporting as under:

- a) 1-14 days.
- b) 15-28 days
- c) 29 days – 3 months
- d) over 3 months upto 6 months
- e) over 6 months upto 1 year
- f) over 1 year upto 3 years
- g) over 3 years upto 5 years
- h) over 5 years.

The banks may, for the sake of convenience, segregate the branches as under for obtaining data on residual maturity:

a) **audited branches**

- computerised branches, which would normally be audited
- non-computerised branches selected for audit

b) **unaudited branches**

Data, if prepared, in the format as per Annexures, would be relevant. This needs to be signed by the authorised branch personnel in all cases, and in case of audited branches, should be examined and attested by the auditor.

2. **MATURITY PATTERN OF LOANS AND ADVANCES**

Maturity Pattern of only advances categorized and identified as STANDARD is required to be compiled by the Branches, for the reason that as per the RBI guidelines, all NON PERFORMING ADVANCES are required to be considered in maturity buckets as under:

<u>Category of NPA</u>	<u>Time Bucket</u>
Sub-standard	3-5 Years
Doubtful/Loss	Over 5 years

The Advances portfolio of a bank would generally be comprised of the following; and since the advances are controlled at the branches, the relevant information would be obtained from them - such information usually arising from:

a) **Bills transactions(bills purchased and discounted)**

- Inland Bills Purchased
- Inland Usance Bills Purchased
- Inland Usance Bills Discounted
- Advance against Inland Bills for Collection (Supply Bills)
- Foreign Bills Purchased
- Foreign usance Bills Purchased
- Advance against Foreign Bills or Collection

Usance Bills Purchased and Inland Usance Bills Discounted

Details of Inland Usance Bills Purchased/Discounted need to be prepared by the branches in the recommended format

BANK AUDIT - ASSET-LIABILITY MANAGEMENT

Advances against Inland Bills for Collection-ABC(Supply Bills) are made in rare cases, and the banks treat these as akin to the usance bills, as the realisability is according to the terms of the underlying contract of supply. Details regarding maturity of ABC(supply bills) would therefore, be furnished in their maturity buckets; and if against demand bills, the outstandings fall in the 1-14 days' bucket.

Foreign Usance Bills Purchased Advance against Foreign Bills for Collection

Foreign Usance Bill means any Foreign Bill purchased or discounted whether or not under L/C, which has a due date on which it is expected to realise. As in the case of ABC (Inland), if advance is made against foreign bills, the same treatment is given as above and could be against sight bills (Demand Bills) which could not be purchased or negotiated. Details regarding maturity of Advance against Foreign Bills for Collection would be furnished in (Refer CV 8).

Bills which are falling due:

	Maturity Bucket
- on or before 14/4/2009	1 to 14 days
- between 15/4/2009 and 28/4/2009	15 to 28 days
- between 29/4/2009 and 30/6/2009	29 days 3 months
- between 1.8.2009 and 30.9.2009	3 - 6 months
- between 1.10.2009 and 31.3.2009	6 months- 1 year
- between 1.4.2009 to 31.3.2012	1 - 3 years
- between 1.4.2011 to 31.3.2014	3 - 5 years
- on or after 1.4.2014	Over 5 years

(Refer recommended reporting format)

b) Term Loans

The Maturity pattern of Term Loans is to be computed on the basis of the interim cash flows

i.e. according to the stipulated repayment schedule.

(Refer recommended reporting format)

c) Loans re-payable on demand

- Cash Credits
- Overdrafts (including temporary overdrafts and adverse balances in deposit accounts)
- Demand Loans
- Packing Credits

3. MATURITY PATTERN OF INVESTMENT SECURITIES

The investment portfolio of banks is generally controlled on a centralized basis and the maturity patterns can be worked out at that level. Branches may not, therefore be expected to submit any information on this item, even if they hold investments on behalf of the Head office.

4. MATURITY PATTERN OF FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency assets and liabilities are not expected to be held/ incurred at other than certain branches, usually designated as 'A' category branches. The statement with regard to these would be prepared and forwarded by only such Branches for consolidation at Head Office.

5. MATURITY PATTERN OF BORROWINGS

Borrowings include re-finance and in the normal course such activities take place at selected few branches. The information relating to Maturity pattern of these Refinance/Rediscount is also available at Head Office. Certification of Maturity pattern of Borrowings in the stipulated Buckets can be done at such branches, and counter-checked at Head Office.

BANK AUDIT - ASSET-LIABILITY MANAGEMENT (Contd.)

RESIDUAL MATURITY-CONCEPT

Deposits repayable after a specified term usually have a stipulated date when the deposits mature. The date refers to a contractual maturity date on which the depositor may ask for repayment/renewal. The time period that remains to elapse between the year-end and the contractual maturity date is referred to as the "Residual Maturity" Period and can be illustrated by the following, if there are 10 Term Deposits in a branch as under:

Date of Deposit	Amount (Rs.)	Rate of Interest Rate %	Due date	Time Bucket
01.04.2006	50000	5%	01.04.2010	
01.05.2007	200000	5.5	01.08.2010	
01.08.2008	150000	5.5	01.08.2010	
30.12.2008	50000	6	30.01.2011	
01.01.2009	100000	6	01.01.2011	
01.01.2009	100000	6	01.01.2011	
01.01.2009	100000	6	01.01.2011	
01.01.2009	100000	6	01.04.2011	
01.02.2009	100000	5	01.05.2011	
01.03.2009	100000	6	01.03.2012	

While contractual maturity for the first deposit is for 4 years i.e 48 months, the deposit has already completed more than 3 years. The balance period for which it will run till the next date of maturity is 1.4.2010 **MINUS** the year-end date i.e. in this case the remaining period is 1.4.2010 MINUS 31.3.2010 i.e. one day. This is the residual Maturity of the deposit. Therefore, for the ALM returns, the amount of this deposit will be shown as deposits maturing within 1-14 days.

Similarly, in respect of the next deposit, the remaining period is 1.8.2010 MINUS 31.3.2010 i.e. 4 full months. Therefore, this amount will be shown as maturing within 3-6 months time bucket.

Matured/Overdue deposits even if continuing in Term Deposit Ledgers, would be reckoned as demand Liabilities. Attention is drawn to the manner of preparing the relevant statements (Refer CV 5-6).

BANK AUDIT – ASSET-LIABILITY MANAGEMENT (Contd.)

SUMMARY OF RESIDUAL MATURITY STATEMENT OF TERM DEPOSITS AS AT 31ST MARCH 2010

TIME BUCKETS	NO. OF ACCOUNTS	AMOUNT (Rs.)
A. OVERDUE		
B. OTHERS		
1-14 DAYS		
15-28 DAYS		
29 DAYS TO UPTO 3 MONTHS		
OVER 3 MONTHS AND UPTO 6 MONTHS		
OVER 6 MONTHS AND UPTO 1 YEAR		
OVER 1 YEAR AND UPTO 3 YEARS		
OVER 3 YEARS AND UPTO 5 YEARS		
OVER 5 YEARS		
TOTAL (A)		
TOTAL (A+B)*		

- Notes : 1. * Figures must match with the Balance Sheet.
2. @ Overdue deposits shall not be reckoned in the above statement.
3. Detailed statement (following) may be referred to.

BANK AUDIT - ASSET-LIABILITY MANAGEMENT (Contd.)

Disclosure Requirements in the Balance Sheet

Maturity pattern of certain items of assets and liabilities

(Rs. in crore)

<i>Nature of Items</i>	<i>1 to 14 days</i>	<i>15 to 28 days</i>	<i>29 days to 3 months</i>	<i>Over 3 months & up to 6 months</i>	<i>Over 6 months & up to 1 year</i>	<i>Over 1 year & up to 3 years</i>	<i>Over 3 years & up to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Deposits									
Advances									
Investments									
Borrowings									
Foreign Currency assets									
Foreign Currency liabilities									

BANK AUDIT (2009-10)

Text of Management Representation Letter to be obtained from the Branch Management

CC

M/s _____
Chartered Accountants,

Dear Sirs,

Re: Audit of the annual financial statements of our Branch for the year 2009-10

This representation letter is provided in connection with your audit of the financial statements of _____ Branch of _____ (Bank), for the year ended March 31, 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of the said Branch as of March 31, 2010 and of the results of operations for the year then ended. We acknowledge our responsibility for preparation of financial statements in accordance with the requirements of the Reserve Bank of India and recognised accounting policies and practices, including the Accounting and Auditing Standards issued by the Institute of Chartered Accountants of India (ICAI); as also with the Circulars issued pursuant thereto and in line therewith from time to time and as applicable to the Branch.

The statements/returns furnished for audit, prepared at the Branch, have been pre-reviewed, authenticated and incorporate information/ data, strictly in accordance with the laid down instructions of the Bank.

We confirm, to the best of our knowledge and belief, the following representations:

1. Accounting Policies

The accounting policies, which are material or critical in determining the results of operations for the year or state of affairs as applicable to the Branch and there are no changes in the accounting policies followed by the branch during the current year. The financial statements are prepared on accrual basis.

2. Previous Reports - Compliance

We have made available to you the following latest reports on the accounts of our branch, and compliance by the branch on the observations contained therein:

- a) Branch Audit Report and Accounts;
- b) Long Form Audit Report;
- c) Internal Inspection Report;
- d) Internal/Concurrent Audit Report(s);
- e) Credit Audit Report;
- f) RBI Inspection Report, if such inspection took place;
- g) Income and Expenditure Control Audit/Revenue Audit Report;
- h) Quarterly review report (s);
- i) IS/ IT/Computer/EDP Systems Audit; and
- j) special inspection/investigation report/ stock audit.

Apart from the above, the Branch has not received any show cause notice, inspection advice, etc., from Government of India, Reserve Bank of India or any other monitoring or regulatory authority that could have a material effect on the financial statements of the Branch during the year or that may require any compliance at the branch.

3. Books maintained in the EDP environment

The books of the accounts are computerised and hence the subsidiary records are automatically balanced with the relevant control records, except as otherwise mentioned. In case of manual sub-ledgers maintained, we confirm that they duly match with the general ledger balances.

The Branch has attended to all "exception reports" generated during the year, and remedial action, wherever required has been taken; and there are no major adverse issues/matters that are pending as at the year end.

BANK AUDIT (2009-10)**Text of Management Representation Letter to be obtained from the Branch Management****CC**

Manual intervention to the system generated financial data, wherever required, have been attended to in the preparation of and incorporation in the financial statements of the Branch, and are duly authorized as per the laid down procedure.

4. ASSETS

The branch has a satisfactory title to all assets and there are no liens or encumbrances on the assets of the Branch. The Municipal dues/ local levies / demands and lease/rentals pertaining to the Branch premises have been duly paid/provided, based on the claim/agreement for the time being in force, including demands/claims where the rent/lease agreement has expired.

5. Cash and Bank Balances

The Cash balance (including at the sub offices, imprest balances, ATMs attached to the Branch), as on March 31, 2010 is Rs. _____ as verified by us, tallies with the book records.

The Branch has obtained and made available, balance confirmation certificate(s) for balances maintained with other bank(s) and the balances in respect thereof, have been reconciled as at the year end, requiring no adjustments in respect of any entries prior to the year end.

In respect of Currency Chest deposits/withdrawals, all entries up to the year end have been simultaneously duly incorporated in the accounts of the Branch, to enable reflection of the correct balance of the account maintained with the Reserve Bank of India.

6. Advances

6.1 In respect of the advances against tangible assets, the Branch holds evidence of existence and realizable market value of the relevant securities as at the year-end.

6.2 We have examined the advances accounts and have categorised the borrowers, according to the applicable prudential norms and the regulatory parameters prescribed by the Reserve Bank of India (RBI) , *for provision and income recognition*, into standard, sub-standard, doubtful or loss assets, except as otherwise permitted as per the said prudential norms. The borrower-wise categorization is based on the most adverse status in any credit facility, including that as an investee. The information relating to the Borrowal accounts maintained at the Branch has been reviewed with reference to the recorded and updated loan procedures followed, including appraisals, sanction, documents and further monitoring and supervision and reference to adverse comments, if any, in the inspections/audit, irrespective of the physical location of the loan procedure documents.

The borrowers' accounts have been simultaneously been categorized into those that are performing assets or non performing assets (NPAs).

6.3 The classification status of the borrowers made as at the end of the previous year has not been upgraded and changed to a better classification, except where such upgradation was permitted as per the RBI prudential norms, or so justified due to recoveries in accounts, or the curing of the defaults that lead to the earlier adverse categorization of the borrower.

6.4 While income is generally accrued and recorded in the accounts of borrowers categorized as 'Standard' no income has been recorded on Non-performing Accounts other than on actual realisation.

6.5 No income has been adjusted/recorded to revenue, contrary to the norms of income recognition notified by the Reserve Bank of India; and particularly where the chances of recovery/realisability of the income are remote.

BANK AUDIT (2009-10)**Text of Management Representation Letter to be obtained from the Branch Management****CC**

- 6.6 That in respect of advances, it is further confirmed that:
- due care has been taken at the time of appraisal, sanctioning, disbursements and thereafter at the time of renewals/ review, that the borrower is not in the list of willful defaulters, nor in the negative list of borrowers
 - stock audits, wherever required, have been carried out and the adverse observations have been attended to and considered in categorization of the borrower as per applicable norms.
 - stock inspections/audit, wherever mandatory and as per the laid down system of the Bank have been carried out in respect of borrowers where credit facilities are against their inventories to determine the existence and valuation thereof and to gauge the adequacy of the primary security.
 - the drawing power/limit has been worked out in the case of credit facilities by application of the requisite margin (on the net paid for stocks, where the credit facilities are against such primary security).
 - in case of multiple banking, diligence reports from other banks have been obtained, and are on record, except as otherwise stated.
 - all advances where renewal of limits was required, have been duly reviewed and the limits renewed within the prescribed time, and no borrower has become NPA on this account up to the year end.

7. Fixed Assets/ Depreciation

The fixed assets held by Branch have been properly accounted and have been physically verified and reconciled with the book records as at the year end. No discrepancies are noticed on such verification. Depreciation on these assets have been adequately provided as per the policy of the bank.

Capital Commitments

At the balance sheet date, there were no outstanding commitments for capital expenditure, other than those disclosed in the financial statements.

8. Stationery

Unused Stock of security paper stationery like Cheque books, Drafts, Pay Orders, Banker's Cheques, Deposit Receipts, Cash Certificates, Stamped Guarantees and similar stationery, have been verified and tally with the records maintained at the Branch and these have also been produced for your verification. Dual controls on receipt, custody, issue and holding of such stationery, have been followed and there have been no exceptions reported in this regard at the Branch.

9. Other Current Assets**Outstandings In Suspense and similar nominal heads of account**

The break up of amounts outstanding in Sundry deposits and similar nominal heads of account /Sundry assets as at the year end have been properly disclosed and the amounts are justified to be retained at the Branch as per the system of the Bank.

In the opinion of the Branch management, the other current assets have a value on realisation in the ordinary course of the business which is at least equal to the amount at which they are stated in the Branch balance sheet.

LIABILITIES

10. The Branch has recorded all known liabilities in the financial statements.

BANK AUDIT (2009-10)**Text of Management Representation Letter to be obtained from the Branch Management****CC****11. Overdue/ Matured Term Deposits**

All overdue/ matured term deposits are held as demand/current deposits.

Term Deposits are subject to the scheme of the Bank for automatic renewal, unless otherwise instructed by the Deposit holders, the renewals being for the same period as the matured deposit; and entries are generated through the system for such renewals on due dates. This is done net of tax deduction at source. Provision for interest at the year end, is properly made for deposits not contractually due, and is also subject to such deduction at source.

We confirm that the credit in the term deposit accounts/ renewals on due dates(*net of applicable tax*), is backed up with adequate controls including by issuance of deposit receipts in cancellation of the matured deposit receipts or by duly recorded endorsements on the inverse of the existing receipts. There is control over the unissued receipts, in that these are issued only when the originals are returned to the Bank. We confirm that there is no breach of this system at the Branch; and the Branch does not hold any issued receipts that have not been dispatched to the deposit holders.

12. CONTINGENT LIABILITIES

12.1 The Branch has disclosed in the relevant returns prescribed for the branch, all;

- (a) guarantees given to third parties;
- (b) Letters of Credits (Local/Import);
- (c) Letters of Comfort (Local/Import);
- (d) Deferred Payment Credits/Guarantees (Local/Import); and
- (e) all other contingent liabilities/obligations.

12.2 Other than for advances, there are no matters involving the Branch in litigation, arbitration or disputes requiring any provisions/ adjustments in the financial statements or disclosure as contingent liability having bearing on the Branch financial statements, except as otherwise stated in the returns/data compiled for this purpose for onward submission to the Controlling Authority. The Branch has not received any legal notices/claims (including staff claims) for any statutory or regulatory defaults or claims relating to municipal taxes or local levies or from customers in relation to the Branch in the course of its business, involving any liability which are likely to result in a loss/detriment requiring adjustment to the Branch assets or liabilities.

12.3 All contingent obligations assumed are duly incorporated in the Branch records and all outstanding obligations, including in respect of Guarantees, Letters of Comfort and similar obligations assumed and outstanding at the year end at the Branch, have been disclosed net of margins; and where such obligations have ceased these have been correctly deleted from the branch records/ returns, including in respect of expired guarantees (where the claim period has also expired) and invoked guarantees/obligations that have been duly discharged.

12.4 Provisions for Claims and Losses

Provision has been made in the accounts for all known expenditure, losses and claims of material amounts.

13. Profit and Loss Account

13.1 Except as disclosed in the financial statements, the results for the year were not materially affected by:

- (a) transactions of a nature not usually undertaken by the branch;
- (b) circumstances of an exceptional or non-recurring nature;
- (c) charges or credits relating to prior years;
- (d) changes in accounting policies

BANK AUDIT (2009-10)**Text of Management Representation Letter to be obtained from the Branch Management****CC****13.2 Interest Expended/ Earned and Provisions**

- (a). On Deposits, Interest has been paid/ provided as contractually due in accordance with the extant instructions of the Controlling Authority/Head office, net of the stipulated Tax deduction at source.
- (b). On Advances identified during the year as NPAs, the interest earlier accrued as income (and debited to the borrowal accounts), but remaining unrealized, have been derecognized as income and treated as Interest Suspense; whereafter, the interest otherwise contractually due, is not recognized as income earned and is not debited to the borrowal accounts, as per the system in vogue. Record of such unapplied Interest is separately maintained for potential recovery.
- (c). Interest as communicated by the Controlling Authority/Head Office on account of Transfer Pricing mechanism/Inter branch balances, up to the year end, has been adjusted at the Branch, as per the laid down system.

13.3. Provisions/adjustments usually made at Head Office:

No adjustments/ provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Head Office, including in respect of:

- (a) Bonus, ex-gratia, and other similar expenditure and allowance to branch employees;
- (b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, and liability for leave encashment benefits, and other benefits covered in terms of 'AS 15- Employees Benefit' issued by Institute of Chartered Accountants of India;
- (c) Arrears of salary/wages/allowances, if any, payable to staff;
- (d) Staff welfare contractual obligations;
- (e) Old unreconciled/ unlinked entries at debit under various heads comprising Inter branch /office adjustments;
- (f) Effect of conversion of outstanding Branch balances in foreign exchange as per the system followed;
- (g) Auditors' fees and expenses;
- (h) Items in Suspense, clearing differences, Credit Cards, Frauds/ vigilance cases involving claims/ liability or loss to the Bank and other provisions on behalf of the Branch;
- (i) Provisions in respect of advances as per applicable prudential norms and guidelines of the Reserve Bank of India and the Bank's policy in the line therewith (including on standard advances, floating, adhoc/generic provisions covering weak standard advances); in respect of which, unless otherwise stated, is to be considered also in line with the Branch returns relating to classification prepared at the Branch;
- (j) Adjustments/provisions in respect of Interest Suspense and Unapplied Interest for the earlier year for advances identified as NPA during the year reported in the Memorandum of Changes (MOCs) ; and
- (k) Taxation (subject to adjustments for deferred tax up to the year end).

- 14.** There have been no events subsequent to the balance sheet date that require adjustment of, or disclosure in, the financial statements or notes thereto.

15. Long Form Audit Report — Branch Response To The Questionnaire

In connection with the Long Form Audit Report, complete information as regards each item in the questionnaire has been made available to you in order to enable you to verify the same for the purpose of your audit.

BANK AUDIT (2009-10)**Text of Management Representation Letter to be obtained from the Branch Management****CC****16. Other Certification**

Duly authenticated, information as regards other matters which, as per the Bank's letter of appointment, require certification has been made available to you.

17. General

There is no enquiry going on or concluded during the year by Central Bureau of Investigation (CBI) or any other vigilance or investigating agency/ authority on the Branch or on its employees and no cases of frauds, suspected frauds or of misappropriation of Assets of the branch have come to the notice of the Branch Management during the year other than those recorded and duly reported in the relevant return relating to frauds to the Controlling Authority/Head Office.

The provision for non-performing assets, depreciation, provision for income tax, provision for bonus, gratuity, etc., is made at the Head Office. Therefore, the same has not been provided in the branch accounts.

- 18.** There have been no irregularities involving management or employees who have a significant role in the system of internal control that could have a material effect on the financial statements.

- 19.** The Bank has a system to convert its foreign currency balances outstanding at the year end rates on a centralized basis; and all balances of this nature at the Branch have been communicated for this purpose to enable the Controlling Authority to align the balances with the applicable year end rates.

- 20.** The financial statements are free of material misstatements, including omissions.

- 21.** The Branch has complied with statutory/regulatory/accounting requirements and all contractual obligations that could have a material effect on the financial statements.

- 22.** The Branch neither has, nor has it been communicated any plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

- 23.** The other particulars required have already been given to you and particulars and other representations made to you from time to time are true and correct in all respects.

24. Tax Audit

The information required for the tax audit under section 44AB of the Income-tax Act, 1961 has been made available to you in order to enable you to verify the same for the purpose of your report thereon. In respect of the Tax Audit, we certify the following:

PART – A

Our status as defined under the Income Tax Act, 1961 is a Company; and our Permanent Account No. and the jurisdiction under section 124 of the Income-tax Act, 1961 as communicated by Head office, has been incorporated correctly in the Form.

PART – B

There is no change in nature of business in current year as compared to preceding previous year.

The books of account maintained by us have been correctly disclosed in clause 9(b) of Form 3CD.

Our Profit & Loss does not include profits and gains assessable on presumptive basis under sections 44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, 172 of the Income-tax Act, 1961.

BANK AUDIT (2009-10)

Text of Management Representation Letter to be obtained from the Branch Management

CC

The method of accounting followed is as per clause 11(a) which has been consistently followed in the immediately preceding previous year. There was no change in the method of accounting employed vis-à-vis the method employed in the immediately preceding previous year. The Accounting Policies of the Bank may be referred to, as applicable to the Branch.

Sum received from employee towards contributions to any provident fund or superannuation fund or any other fund mentioned in section 2(24)(x) which is paid/not paid within due dates to concerned authorities under section 36(1)(va) are mentioned in Clause 16 (b) of our Form 3CD and the same are correct.

In Clause 17 of Form 3CD, there are no other amounts of such items debited to Profit & Loss Account.

No payments are made to persons specified under section 40A(2)(b).

There is no amount of profit chargeable to tax u/s. 41 as disclosed under clause 20 of Form 3CD.

Except for the items shown under clause 21(ii)(B), no tax, duty or other sum as referred to u/s. 43B has been provided as at the year end.

No expenditure/ income of an earlier year has been debited/ credited to the Profit & Loss Account except to the extent disclosed under clause 22(b) of Form 3CD.

Section-wise details of deduction admissible under Chapter VI-A.

No other deductions other than those mentioned in clause 26 of Form 3CD is available to the branch.

Details of non deduction, non-payment or delay in payment of tax deducted at source to the credit of the Central Government are given in the statement of particulars. Apart from that, there are no other delay, in payment of Tax Deducted at Source.

The other particulars and information required have already been given to you and other representations made to you from time to time are true and correct in all respects.

Thanking you,

Yours faithfully,

Branch Authorised Signatory

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**REPORT OF THE BRANCH AUDITOR TO THE STATUTORY AUDITORS ON THE
AUDIT OF ACCOUNTS OF _____ BRANCH OF _____ BANK FOR
THE YEAR 2009-10**

We have audited the attached Balance Sheet of the _____, Branch of _____ (Bank) as at 31.3.2010 and the Profit and Loss Account of the said Branch for the year ended on that date, which statements have been prepared in the formats recommended by the Central/Head Office and disclose the information as may be necessary to conform to Forms 'A' and 'B' respectively of the Third Schedule to the Banking Regulation Act, 1949. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements, based on our Audit.

We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

On the basis of the audit indicated herein, and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, and subject to the limitations of disclosures required therein, we report as under:

(Refer Annexure D.Q for illustrative observations (S.Nos.1 to 15), and being qualifications, these may be incorporated based on audit conducted and for which evidence is kept on the record, as part of documentation)

16. Provisions / Adjustments

No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central/Head Office, including in respect of :

- a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 – Employee Benefits' issued by the Institute of Chartered Accountants of India;
- c) Arrears of salary/wages/allowances, if any, payable to staff;
- d) Staff welfare contractual obligations;
- e) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments,
- f) *Depreciation on fixed assets;
- g) *effect of conversion of outstanding Branch balances in foreign exchange as per the system followed ;
- h) Auditors' fees and expenses;

D

- i) Items in Suspense, clearing Differences, Credit Cards, Frauds/ vigilance cases involving claims/ liability or loss to the Bank and other provisions on behalf of the Branches;
- j) Provisions in respect of advances as per the applicable prudential norms and Guidelines of the Reserve Bank of India and the Bank's policy in line therewith (including on standard advances, floating, ad hoc/generic provisions covering weak standard advances ; and
- k) Taxation (subject to adjustments for deferred tax upto 31.3.2010).

*Subject to what is stated above, the Memorandum of Changes (**Annexure(s)** @), having effect on the financial statements to the extent as quantified as above and to the extent not ascertained at the Branch, including subject to other adjustments usually made at the Central/Head Office of the Bank, in our opinion and to the best of our information and according to the explanations given to us, and as shown by the books of the Branch and read with the Accounting Policies of the Bank (to the extent made known to us and as applicable to the Branch), we have to report that:*

- a) the Balance Sheet as at 31.3.2010 of the said Branch of the Bank, as authenticated by us, is a full and fair Balance Sheet of the Branch containing the necessary particulars and is drawn up so as to exhibit a true and fair view of the affairs of the Branch as at 31.3.2010.
- b) the Profit and Loss Account authenticated by us, shows a true and fair view of the **profit/loss @@** of the Branch for the year ended 31.3.2010 (after adjustment of interest as per Head Office Communications).
- c) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of audit and have found them to be satisfactory.
- d) transactions of the Branch which have come to our notice have been within the powers of the Bank.
- e) the Balance Sheet and Profit and Loss Account of the Branch are in agreement with the Books of Accounts.

For _____
CHARTERED ACCOUNTANTS

(Partner) M.No.....

Place:

Date:

@ Refer Annexures for recommended formats of reporting, particularly the MOCs for matters affecting the annual financial statements.

Notes:

- 1. @@ Delete what is inapplicable.**
- 2. The concept of "materiality" needs to be kept in mind while reporting.**
- 3. All qualifications must be in bold/italics.**

FOR BANKING COMPANIES **DD**
REPORT OF BRANCH AUDITOR TO THE STATUTORY AUDITORS ON THE AUDIT OF ACCOUNTS
OF _____ BRANCH OF *(name of the Banking company)* FOR THE YEAR ENDED 31-3-2010

We have audited the attached Balance Sheet of the _____, Branch of _____ (Banking Company) as at 31.3.2010 and the Profit and Loss Account of the said Branch for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements, based on our Audit.

We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The statements have been prepared in the formats recommended by the Central/Head Office and disclose the information as may be necessary to conform to Forms 'A' and 'B' respectively of the Third Schedule, as per Section 29 of the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956, and we report as under:

(Refer Annexure D.Q for illustrative observations (S.Nos.1 to 15), and being qualifications these may be incorporated based on audit conducted and for which evidence is kept on the record, as part of documentation)

16. Provisions / Adjustments

No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central/Head Office, including in respect of :

- a. Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- b. Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 – Employee Benefits' issued by the Institute of Chartered Accountants of India;
- c. Arrears of salary/wages/allowances, if any, payable to staff;
- d. Staff welfare contractual obligations;
- e. Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments,
- f. *Depreciation on fixed assets;
- g. *effect of conversion of outstanding Branch balances in foreign exchange as per the system followed ;
- h. Auditors' fees and expenses;
- i. Items in Suspense, clearing Differences, Credit Cards, Frauds/ vigilance cases involving claims/ liability or loss to the Bank and other provisions on behalf of the Branches;
- j. provisions in respect of advances as per the applicable prudential norms and Guidelines of the Reserve Bank of India and the Bank's policy in line therewith (including on standard advances, floating, ad hoc/generic provisions covering weak standard advances ; and
- k. Taxation (subject to adjustments for deferred tax up to 31.3.2010).

4. We report that:

- a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of audit and have found them to be satisfactory;
- b) transactions of the Branch which have come to our notice have been within the powers of the Banking Company;
- c) the Balance Sheet and Profit and Loss Account of the Branch are in agreement with the Books of Accounts;

DD

- d) in our opinion, proper books of account as required by law have been kept by the Branch so far as appears from our examination of the books;
- e) As per information and explanations given to us and having regard to the Accounting Policies of the Banking Company as made available to us and to the extent applicable to the Branch, the accounts have been drawn up in accordance with The Companies (Accounting Standards) Rules, 2006 notified by the Central Government, in consultation with National Advisory Committee on Accounting Standards in terms of clause (a) of sub-section (1) of section 642 read with sub-section (3C) of section 211 and sub-section (1) of section 210A of the Companies Act 1956;
- f) As per information and explanations given to us, the Central Govt. has not prescribed any cess payable under section 441A of the Companies Act, 1956;

*Subject to what is stated above, the Memorandum of Changes (**Annexure(s)***), having effect on the financial statements to the extent as quantified as above and to the extent not ascertained at the Branch, including subject to other adjustments usually made at the Central/Head Office of the Bank, in our opinion and to the best of our information and according to the explanations given to us, and as shown by the books of the Branch and read with the Accounting Policies of the Bank (to the extent made known to us and as applicable to the Branch), give the information required by the Companies Act 1956 in the manner so required for banking companies and on such basis,*

- a) the Balance Sheet as at 31.3.2010 of the said Branch of the Banking Company, as authenticated by us, is a full and fair Balance Sheet of the Branch containing the necessary particulars and is drawn up so as to exhibit a true and fair view of the affairs of the Branch as at 31.3.2010;
- b) the Profit and Loss Account authenticated by us, shows a true and fair view of the **profit/loss** @@ of the Branch for the year ended 31.3.2010.

For _____
CHARTERED ACCOUNTANTS

(Partner) M.No.....

Place:

Date:

*** Refer Annexures for recommended formats of reporting, particularly the MOCs for matters affecting the annual financial statements.**

Notes:

- 1@@ Delete what is inapplicable.**
- 2. The concept of “materiality” needs to be kept in mind while reporting.**
- 3. Paras relating to Cash Flows Statements have not been incorporated here as these will be done by the Main Auditors for the bank as a whole**
- 4. All qualifications must be in bold/italics.**

BANK AUDIT

ANNEXURE D.Q

**ILLUSTRATIVE AUDIT OBSERVATIONS REFERRED TO IN THE FORM OF REPORT OF THE
BRANCH AUDITOR TO THE STATUTORY AUDITORS ON THE AUDIT OF ACCOUNTS OF
THE BRANCH FOR THE YEAR ENDED 31.03.2010**

1. There are unreconciled differences between the control accounts and the subsidiary records (Schedule _____)

2. Deposits:

- a) Overdue/matured Term Deposits amounting to Rs. _____ continue to be included under "Term Deposits" instead of the same being treated as "Demand Deposits" as per the disclosure requirements.
- b) Interest provision of Rs. _____ made at the Branch since the date of its last application to various Savings Bank Deposits, in our view, comprises "Interest Accrued and due" rather than "Interest Accrued but not due", and considering the nature thereof, should form part of Deposits under the sub-head "Savings Bank Deposits."
- c) Interest has not been provided on current deposits till the year-end in respect of:
 - deceased constituents (from the date of death)
 - RRBs(Schedule _____)
- d) Interest on Overdue/matured Deposits required to be provided up to the year-end has been wrongly provided in excess/short by Rs. _____ (Schedule _____).
- e) Interest has not been provided/short provided/excess provided on various other deposits to the extent of Rs. _____ (Net) as per Schedule _____.

3. Interest on Advances:

- a) Interest has been excess/short charged on Advances to the extent of Rs.(Net) as per Schedule _____
- b) Interest income has been recovered out of fresh facilities in NPAs, to the extent of Rs. _____ (Schedule _____), contrary to the prudential norms of the Reserve bank of India.

4. Advances:

On the basis of our examination of the Advances accounts we observe that:

- a) Advances have not been classified as per the prudential norms, having effect on provisioning and income recognition as under:

- Accounts classified as Standard should have been in the Sub-Standard category (Schedule _____)
- Income accrued on the above needs to be:
 - derecognised to the extent of Rs. _____ (being interest accrued up to the previous year-end not realized till the year-end).
 - reversed and not recognised for the year under audit to the extent of Rs. _____

Income reversal would have corresponding effect on Interest Suspense to the extent of Rs. _____; and correspondingly income and advances would get reduced to the extent of Rs. In the accounts of the Branch.

- Accounts classified as Sub-Standard need to be classified as in
 - Doubtful category (Schedule _____).
 - Loss category (Schedule _____)

BANK AUDIT

ANNEXURE D.Q

- b) Recoveries in NPAs have not been appropriated to revenue where such recoveries are in excess of "Interest Suspense";
Advances and Income have been accordingly understated to the extent of Rs. _____ (Schedule___).
- c) While classifying the restructured accounts in the sub-standard category, the existing facilities comprising NPAs prior to restructuring have been wrongly categorized as "Standard" (Schedule___), contrary to the applicable RBI Guidelines.
- d) Sub-standard Accounts where restructuring / rehabilitation was allowed but default continued for one year thereafter or in which there was no satisfactory performance, have been wrongly classified as "Standard" to the extent of Rs. _____ (Schedule___)
- e) The branch continues to grant / issue fresh L/Cs to certain parities, notwithstanding that earlier ones have devolved. Devolved L/Cs in default for a period of over 90 days amount to Rs. _____ (Schedule___).
Provision on these on the basis of the Borrower's classification needs to be made at Head Office.
- f) Due to the system followed for appropriation of recoveries in NPAs, accounts have been reclassified as Standard without recoveries being made in respect of unapplied interest. Such Accounts need to be downgraded to NPAs till so long as there is unrealized income including on account of 'Right of Recompense' and 'unapplied interest'.

Due to this, there is change in classification, affecting provisioning and income to the extent of Rs. _____ (Schedule___)

- g) Unapplied Interest has not been computed upto the year-end in NPAs at the applicable contractual rates for the time being in force; the records of the Bank are incomplete on this account.

On account of this, the interest is short waived by Rs. _____ (Schedule ___) in accounts compromised/settled.

5. Commission on Govt. business

In respect of Govt. business done upto the year-end, income to the extent of Rs. _____ has not been accrued up to the year end.

6. Locker rents, and Commission:

The Bank has accounted on cash basis, income by way of Locker rents, and Commission, contrary to the concept of accrual, one of the basic accounting assumptions as per AS I of ICAI. The amount of the same and the amount accrued upto the year-end, have not been computed at the Branch.

7. Reconciliation of Accounts with other Banks

- a) Bank confirmation certificates have not been made available in respect of balances with banks as per Schedule_____
- b) Adjustments are required to be made in respect of entries arising in bank reconciliation statements
 - as affecting other heads of accounts upto the year-end (Schedule___)
 - as affecting expenditure / income items (Schedule___)

8. Fixed Assets

- a) Capitalisation has not been made in respect of assets acquired upto the year-end to the extent of Rs. _____ (Schedule___). Advances against such assets amount to Rs. _____
- b) Depreciation has been excess / short provided at the Branch to the extent of Rs. _____ (Schedule___)
- c) Renovation expenses at the Branch have been wrongly capitalized, although amounts aggregating to Rs. _____ pertain to Repairs and Maintenance.

ANNEXURE D.Q

BANK AUDIT

9. Other Assets:

- a) Provision has not been made in respect of expenditure incurred upto the year-end, including non-adjustment of advances thereagainst to the extent of Rs._____
(Annexure____)
- b) In respect of old/unadjusted/unexplained entries outstanding in "Other Assets"/suspense, provision is recommended at Rs._____(Schedule____)

10. Guarantees, L/Cs

- a) Obligations under Letters of Comfort, amounting to Rs._____ have not been considered as part of Contingent Liabilities as at the year end (Schedule____).
- b) Expired Guarantees and L/Cs where the claim period has expired and obligations have been confirmed as ceased, continue to be on the record of the Branch to the extent of Rs._____(Schedule____)

11. There are claims against the Bank at the branch level which have not been disclosed to the extent of Rs._____(Schedule____)

12. Foreign Currency balances:

Outstanding balances of items expressed in foreign currencies have not been converted and restated at the applicable year-end rates of exchange (Schedule____)

13. Inter branch Adjustments (HO balance:Rs._____) (____)

Effect needs to be given to known entries originated prior to the year-end but responded after that date till the completion of the audit at the Branch (Schedule ____).

Statements (Daily HO summaries) have not been forwarded for matching of entries to the Central Reconciliation cell.

Entries at debit outstanding under various sub heads since over 6 months as at 31.3.2010 and remaining unadjusted require to be provided for to the extent of Rs._____(Schedule ____).

14. Bills for Collection

These include old entries (over six months old) amounting to Rs._____ reasons for retention of which remain unexplained at the Branch (Schedule____).

15. Rebate on Bills Discounted

Adjustments have not been made to the extent of Rs._____ in respect of rebate on bills discounted for income attributable to the period beyond the year-end.

(Memorandum of Changes for the above , have been included in Annexure*)

D.1

[illegible]

SSS= Sub Standard : D= Doubtful (to be classified as D1, D2, D3) : L= Loss

Note: See formats in D.1.2 and D.1.3

RECOMMENDED ANNEXURE TO AUDITORS REPORT
BANK: BRANCH REGION/DISTT./CIRCLE

ANNEXURE-D.1.2 TO AUDIT REPORT DATED.....
Statement showing summary of Memorandum of Changes affecting Advances as at 31.3.2010

Particulars	Code	Secured Add/(Deduct)	Bank/Govt Guaranteed Add/(Deduct)	Unsecured Add/(Deduct)	Doubtful Add/(Deduct)	Remarks
I Bills Purchased:						
Priority Sector						
Public Sector						
Banks						
Others						
Total I						
II. Cash Credits, Overdrafts, Demand Loans etc:						
Priority Sector						
Public Sector						
Banks						
Others						
Total II						
III. Term Loans:						
Priority Sector						
Public Sector						
Banks						
Others						
Total III						
Grand Total (I+II+III)						
NOTES/INSTRUCTIONS: 1. Only one figure must appear against each item & deductions/negative figures must be shown in brackets 2. Reasons for changes must be given in the proforma as per Annexure D.1.2						

RECOMMENDED ANNEXURE TO AUDITORS REPORT

BANK: BRANCH

REGION/DISTT./CIRCLE

ANNEXURE-D.1.2 TO AUDIT REPORT DATED.....

STATEMENT OF REASONS FOR CHANGES RECOMMENDED IN ANNEXURE D.1 TO THE REPORT

PARTICULARS		CHANGES IN CLASSIFICATION									
Name of the Party Remarks	Secured	Govt./Bank Guarantees	Unsecured	Additional Provision Recommended	-----					Additional Provision	Existing Provision
					Priority Sector	Public Sector	Banks	Others			
I. Bills Purchased											
II. Cash Credits, Overdrafts, Demand Loans etc.:											
Total											
III. Term Loans											

D.1.3

Annexure D.1.3 – Recommended format for MOC

MEMORANDUM OF CHANGES (other than Advances) ANNEXED TO AUDIT REPORT DATED _____ FOR THE YEAR 2009-10						
Code	Head of Account	Profit & Loss Account Items		Balance Sheet Items		Remarks/ Reasons for Changes/ Report Para Reference
		Increase Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.	
	Total					
	OFF BALANCE SHEET HEADS:					
	Total					

BANK:

BRANCH

REGION/DISTT./CIRCLE

List of advances Accounts for which interest calculations checked for the year 2009-10Nature of Account

Name of the Borrower	Account No.	Credit Rating		Period of Checking	Interest Charged Rs.	Correct Interest Rs.	Excess charged		Short Charged		Remarks
		Applicable	Actually applied				Rs.	Rs.	Rs.	Rs.	

Signatures

NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING

[Refer also RBI Master Circular No. DBOD.No.BP.BC. 17 /21.04.048/2009-10 DATED 1-7-2009]

Advances comprise moneys laid out by the Bank by way of term loans, cash credits, overdrafts, bills purchased and discounted for the purpose of earning yields (interest/discounts etc.) and include all the interest bearing# advances granted to employees e.g. Clean Loan, Housing Loan, Conveyance Loan and other Advances to employees (other than those as an Employer) normally against security and/ or guarantee and covered by appropriate documentation, pursuant to due process procedures by way of appraisal, sanction etc.

(#non-interest bearing advances e.g., Festival Advances. Salary Advance to celebrate Festival and Flood Relief Advances to Staff should not be treated as advances but be shown under the head "Other Assets").

I. ADVANCES ACCOUNTS NEED TO BE EXAMINED TO DETERMINE THEIR HEALTH STATUS AND SO THAT:

- i) **Provision** is made in respect of Advances **to the satisfaction of the auditors**, as per the legal requirements, based on Bank's **internal categorisation of the borrowers** into "Standard", "Sub Standard", "Doubtful" or "Loss" as per the Guidelines for the time being in force of the Reserve Bank of India (RBI), which prescribes the minimum rates/basis of making provisions.
- ii) **Income** is recognized only on accrual basis:
 - a. as **contractually due** in respect of Advances that are performing or treated as performing and generally classified as Standard Assets; and
 - b. on actual **realization/recoveries** in case of Non Performing Assets (for borrowers generally classified as Sub standard, Doubtful and Loss Assets).

The determination of the realistic status of the Borrowal accounts (maintained at the branch level), has direct impact on the net operating results of the bank, based on the effect of the sum total of provisions for advances (**including standard assets**) and income recognition/ derecognition; and disclosure of Advances appropriately (net of prudential/technical provisions on sub standard, doubtful and loss assets, unless written off; and in the balances sheet, such provisions, **except those relating to Standard Advances**, are reduced from the Advances.

Provision in respect of Standard Advances, which are of the nature of Reserves, is considered as part of the "Other Liabilities" in Schedule 5 of the prescribed form of the Balance Sheet.

While provisions are generally centralised and not considered at the Branch level, is imperative to determine, at the Branch level, the correct classification status of the borrowal accounts, based on documentation, operations, security/guarantee and other relevant factors.

Based on the Audit exercise and the Memorandum of Changes forming part of the Branch Audit Report, remedial action is taken at the centralized level with regard to provisions (including where the classification status of Advances is changed); and income recognition/ derecognition is considered on behalf of the branch.

Since provisions for bad and doubtful debts is required to be made to the satisfaction of the auditors, verification of Advances is a critical part of the scope of the work and responsibilities of the Branch Auditor and he needs to be equipped with updated knowledge of the latest applicable legal, regulatory and accounting requirements and the requisite skills to execute the assignment; essentially to examine and exercise judgement on the correctness of the health status of the borrower, including based on the documentation, operations, the capacity of the borrower to service the credit facilities and the existence and realizable value of the security, guarantee etc. to enable the Bank to realise the amounts due in the event of a default.

A. Provision needs to be made based on categorization of Assets (including leased assets); and would include advances sanctioned against Central Govt. guarantee, **if the same is invoked and not repudiated**, and State Govt. Guarantee irrespective of invocation, and where the advance remains in default for 90 days or more. The minimum bench-marked rates are given in the prudential regulatory norms and the banks may, as a matter of prudence, opt for higher provisions, considering the risks of trade they are exposed to.

Reference may be made to the Chart in **Section E II** for the regulatory basis for provisions.

Provisions in special circumstances:

- a. As per Clause 5.9.1 of part A of the Master Circular, in respect of Advances granted under rehabilitation packages approved by BIFR/term lending institutions, the existing asset classification as "sub standard" or "doubtful" shall apply; and provisions shall be made accordingly, except as regards the **additional facilities** sanctioned no provision need be made for a period of one year:
 - o **from the date of disbursement** and
 - o **for SSI Units identified as sick** [as defined in Section IV (Para 2.8) of RPCD circular RPCD.PLNFS.BC. No 83 /06.02.31/2004 2005 dated 1 March 2005] and where the rehabilitation packages/nursing programmes are drawn up by the Bank or under consortium arrangements with other banks. Provision should also be considered for **rehabilitation of sick**

SSI units covered by Clause 6 of the RBI Master Circular RPCD.SME & NFS. BC. No.10/06.02.31/ 2009-10 dated 1-7-2009 which deals with Lending to Micro, Small & Medium Enterprises (MSME) Sector, where the rehabilitation package should be fully implemented, based on the parameters for grant of relief and concessions for revival of potentially viable sick SSI units, within six months from the date the unit is declared as potentially viable / viable.

- b. **Advances against Term Deposits of the Bank, NSCs eligible for surrender, IVPs, KVPs and Life policies, though not to be treated as NPAs as stated in Para 4.2.11, require provisioning** based on their classification (Para 5.8.2 of the Master Circular) i.e., by **treating them as NPA (where adequate margin is not available)**. Cases where the year- end outstanding is higher than the realizable security, or margin is not available, must be looked into by auditors.
- c. **Advances against gold ornaments, Govt. and all other kinds of securities** are to be classified based on their health status and are not exempted from provisioning requirements (Refer Para 4.2.11 of the Master Circular).
- d. **Advances subject to Restructuring** (covered by Part B – Para 12, of the RBI Master Circular (DBOD.No.BP.BC. 17 /21.04.048/2009-10 dated 1-7-2009), where the **classification status of accounts** needs to be examined, including **those where proposals/ applications received are pending in the following categories:**
 - industrial units.
 - industrial units under the Corporate Debt Restructuring (CDR) Mechanism
 - Small and Medium Enterprises (SMEs)
 - all other advances.

Indicating for each category

- a. *The name of the borrower*
 - b. *Classification Status pre structuring (standard', 'sub- standard' or 'doubtful' category)*
 - c. *Amount of advance requiring restructuring*
 - d. *Date of the proposal/ application*
 - e. *Date of disposal*
 - f. *Sacrifice sought*
 - g. *Sacrifice borne by the Bank*
 - h. *FITL/WCTL out of interest in default, if any, and retained for provision*
 - i. *Whether restructuring is eligible for special regulatory treatment*
 - j. *Classification Status post re-structuring*
 - k. *Normal Provision made for classification status on 31-3-2009 and 31-3-2010*
 - l. *Provision made for sacrifice on 31-3-2009 and 31-3-2010(for outstandings above or below Rs.1.00 crore)*
 - m. *Accounts downgraded for restructured proposals*
 - n. **Accounts upgraded if considered satisfactory, with justification and the exercise of the right of recompense, indicating the amount recouped by the Bank. As per para 4.2.5 with regard to upgrading of a restructured/ rescheduled account which is classified as NPA contents of paragraphs 4.2.15 and 4.2.16 will be applicable.**
 - o. *Whether Provision for sacrifice retained in separate account, with distinction for Standard/NPA accounts for appropriate disclosure in the balance sheet of the Bank.*
- Accounts where there was rehabilitation/ rescheduling/ restructuring, rephrasing indicating in each case, **the number of times the same has been done**, is relevant information to ensure that there is no evergreening of the advances to keep them afloat as performing.

Provisions are made for potential losses in advances including those which may be performing currently but are intrinsically weak/ problematic/ critical and likely to become non performing and in default and not capable for being serviced on the terms and conditions contractually agreed upon between the bank and the borrower. Cases where the borrower requests for restructuring, rehabilitation, rephasing, rescheduling etc. , would ideally be covered and would require provision for the anticipated sacrifice and relief that may have to be borne by the Bank.

Provision for classification (Refer also Para 4.2.5 of Part A of the master Circular dated 1-7-2009):

While making provision for normal classification the amounts (present value of principal and interest receivable as per restructured loan terms) considered as *Fully Secured and covered by the value of tangible security (primary as well as collateral), duly charged in the Bank's favour in respect of those dues*, it needs to be ascertained as to whether for this

purpose guarantees of the following types(which are otherwise intangible by nature) are treated on par with tangible security:

- i) bank guarantees and (ii) State and Central Government Guarantees

In cases covered in Part B – Para 12, of the RBI Master Circular (DBOD.No.BP.BC. 17 /21.04.048/2009-10 dated 1-7-2009), **where pursuant to restructuring**, part of the principal and/or interest unrealized and/or in default is converted to investments by the Bank, including where borrowers were granted funded interest term loan facilities, it needs to be determined as to whether the prudential norms have been followed for provisioning and income recognition.

In cases of restructuring, the provisions are to be segregated for Standard and Non Performing Advances (for appropriate disclosure in the Balance Sheet), shall comprise:

- i) **Normal provision** as per the prescription contained in the prudential norms based on the year end classification of such accounts that are subject to restructuring, **including pending disposal of the proposals;**
 - ii) **#Provision for the sacrifice or estimated sacrifice for pending proposals; and**
 - iii) **FITL/ WCTL carved out of the amounts of interest in default.**
- # required to be retained in a special designated account**
(Total provision shall not exceed 100% of the advance)

It is relevant to quote, for reference, the following from the Circular:

Extracts from the Master Circular (emphasis in bold for attention)

14.2.1 Incentive for quick implementation of the restructuring package

As stated in para 11.1.2, **during the pendency of the application for restructuring of the advance with the bank, the usual asset classification norms would continue to apply.** The process of reclassification of an asset should not stop merely because the application is under consideration. **However, as an incentive for quick implementation of the package, if the approved package is implemented by the bank as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the bank in non-CDR cases:**

- (i) **Within 120 days from the date of approval under the CDR Mechanism.**
- (ii) **Within 90 days from the date of receipt of application by the bank in cases other than those restructured under the CDR Mechanism.**

14.2.2 Asset classification benefits

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 11:

- (i) In modification to para 11.2.1, **an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.**
- (ii) In modification to para 11.2.2, **during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.**

However, these benefits will be available subject to compliance with the following conditions:

- i) **The dues to the bank are 'fully secured' as defined in Annex 3. The condition of being fully secured by tangible security will not be applicable in the following cases:**
 - (a) SSI borrowers, where the outstanding is up to Rs.25 lakh.
 - (b) Infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.
- ii) **The unit becomes viable in 10 years, if it is engaged in infrastructure activities (Refer Annexure VI), and in 7 years in the case of other units.**
- iii) **The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. The aforesaid ceiling of 10 years would not be applicable for restructured home loans; in these cases the Board of Director of the banks should prescribe the maximum period for restructured advance keeping in view the safety and soundness of the advances. Lending to individuals meant for acquiring residential property which are fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented are risk weighted as under the new capital adequacy framework, provided the LTV is not more than 75% , based on board approved valuation policy. However, the restructured housing loans should be risk weighted with an additional risk weight of 25 percentage points to the risk weight prescribed already.**
- iv) **Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of banks' sacrifice.**
- v) **Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry.**
- vi) **The restructuring under consideration is not a 'repeated restructuring' as defined in para (v) of Annex 3.**

(Refer also to Section II (V and V) and Annexure IV of Section A for information on accounts restructured)

e. Additional provisions as per RBI Prudential Norms:**Floating provisions and Provisions at higher rates for NPAs**

(Refer Para 5.6 of Part A of the Master Circular)

Beyond specific provisions as per the RBI Guidelines, the Bank may consider higher provisions as under:

- pursuant to a Board approved policy (and subject to a level being indicated) for provisions (for possible inherent weaknesses in accounts), to be termed as "Floating provisions", which can be utilised for contingencies only under extraordinary circumstances (to be defined General/Market/ Credit risks); and utilization thereof for specific provisions in impaired accounts to be made with the approval of the Board and prior permission of the RBI.

(RBI has permitted banks to utilize these to cover the amounts borne by banks in case of agricultural debt waiver in 2008-09).

Such provisions cannot, with effect from 2009-10, be netted off from the Gross NPAs for disclosure of net NPAs, or to be treated as part of Tier II Capital within the overall ceiling of 1.25 % of the total risk-weighted assets.

Para 5.6.4 requires the disclosure of the movement of floating provisions.

- Other provisions (not being Floating Provisions)**, on voluntary basis at rates which are higher than as per the prudential norms, which may be consistently applied/adopted

Certain Specific requirements:

- **Provision for country risk** in respect of the country where the Bank's net funded exposure is one percent or more of its total assets.

Over and above the provisions bench-marked and stated above, as per Para 5.9.8 of Part A of the Master Circular dated 1-7-2009, Banks are expected to make country risk exposures based on the ECGC classification, on the basis of the slabs given (A1 and A2 -0.25%; B1 -5%; B2 - 20%; C1 - 25%; C2 and D (Off credit) - 100%). In case of 'Loss' and Doubtful" assets the combined provision, i.e. including for country risk, is to be restricted to 100%.

The Bank may consider a lower level of provisioning (say 25% of the requirement) in respect of contractual maturity of less than 180 days.

- **Sale of financial assets:**

Provision needs to be made to cover possible shortfall in the sale of financial assets (at prices below the Net Book Value); and while actual shortfalls are to be charged off to the Profit & Loss Account, the excess, if any, resulting on sale of some such assets is not to be reversed out of the provisions built up for this purpose (Refer Para 5.8.9 of the Master Circular).

- Liquidity facility drawn/outstanding for more than 90 days in respect of securitization transactions as per guidelines of 1-2-2006 should be fully provided for.

e. Projects under implementation (Para 4.2.15 of part A of the Master Circular) – 3 categories:

- A provision equivalent of the Income already wrongly recognized in the past should be made in respect of assets, which are in reality are other than 'Standard'.
- Funded interest should be fully provided for;
- amounts converted into equity, debentures or other instruments should be fully provided for and not reversed till realization/redemption; **and**
- provisions already held in NPAs sought to be reclassified or upgraded as 'standard' should not be reversed.

Where up-gradation is done in case of restructured accounts, the provision made earlier, net of the sacrifice, can only be reversed based on the satisfactory performance during the period of one year after the first payment of principal / interest falls due (Para 4.2.15)

f. Central Government guaranteed exposures- norms apply only if guarantee repudiated:

Central Govt. guaranteed advances in default cannot be classified as NPA unless guarantee is invoked and repudiated, i.e., no provision is to be made on such advances.

This exemption from classification of such advances as NPA is not for income recognition (Para 4.2.14). If otherwise NPA as per RBI prudential norms, income shall be recognized on the basis of realization.

If in default, classification, provisioning and income recognition **norms apply to State Govt. guaranteed advances and investments**, irrespective of invocation/repudiation thereof.

Balance Sheet Disclosures:

The aggregate Advances of the Bank can be shown at net of provision (as per prudential RBI bench-marked norms. From the year 2009-10 onwards, Floating Provisions cannot be netted

from gross NPAs to arrive at net NPAs, but can only be reckoned as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets. (Refer Para 5.6.3 of Part A of the Master Circular).

Provisions in excess of those necessary for the purpose, including for “Standard” assets, being in the nature of reserves, are shown as part of undisclosed reserves under “Other Liabilities and Provisions – Others” in Schedule 5 to the Balance Sheet.

B. Income:

- a. Generally, income:
 - i) can be accrued and needs to be recognized only on performing/ Standard Advances;
 - ii) cannot be accrued or recognized on NPAs comprising “Sub-standard”, “Doubtful”, “Loss” Assets, unless the same is actually realized/recovered.
 - iii) If accrued and recognised for the preceding year in respect of accounts identified during the year as NPA, income needs to be derecognised, **to the extent not realized.**
- b. Income realized in NPAs can be appropriated to Income provided the credits are not out of fresh/additional credit facilities sanctioned to the borrower.
- c. Subject to any instructions to the contrary from the constituent, the Bank, *according to the Prudential norms*, has a right to appropriate the recoveries to either income (earlier not recognized), or to principal; provided the Bank adopts a proper accounting policy and does it on a uniform and consistent basis (Refer Para 3.3.2 of the Master Circular dated 1-7-2009).
However, keeping in view AS 9 Revenue Recognition issued by the ICAI, it would be appropriate to reckon the recoveries by giving priority to charges and interest and then to the principal.
In case the Bank adopts a policy to accord priority to principal, the account can never be upgraded till full recovery of interest (applied/unapplied).
- d. **Interest derecognized, if already accrued in the earlier years in respect of NPAs identified in the current year, is usually reversed to the current year’s interest; and must not be credited back to the constituent.**
- e. recoveries in excess of total acquisition cost of NPAs purchased from other banks, can only be appropriated as income.
- f. As per Para 4. 2.19 of Part A of the Master Circular, it has been clarified that the existing credit facilities sanctioned to a unit under rehabilitation packages approved by BIFR/term lending institutions, will continue to be classified as sub standard or doubtful as the case may be, *in respect of additional facilities sanctioned under the rehabilitation packages*, the Income Recognition, Asset Classification norms will become applicable after a period of one year from the date of disbursement.

C. Interest Suspense and Unapplied Income in NPAs:

Usually the income earlier recognized (by debit to the borrower), **is reversed** by crediting “Interest Suspense” or similar account, **and without giving credit to the borrower.**

Amounts not recognized as income/revenue thereafter, is recorded on contractual basis in other Memoranda records (dummy ledgers).

The amount derecognized as income and retained in Interest Suspense or similar account, does not comprise a provision, but is netted off from the gross advance of the borrower for disclosure in the Balance Sheet.

It is imperative that the figures of Interest Suspense/Unapplied Interest, are computed and kept updated. This also has a nexus to the entries relating to recoveries being correctly recorded for NPAs upon realization, for making claims and in cases of waiver, the authority of the competent authority to waive the amount.

THE FOLLOWING NEEDS TO BE KEPT IN VIEW:

1. IMPORTANT TERMS DEFINED IN THE PRUDENTIAL NORMS

As per R.B.I. guidelines, credit facilities can either be **overdue** or **out of order**.

Overdue: (applicable to installments of principal in term loans, servicing of interest and bills purchased and discounted)

Bills purchased and discounted

If the interest/installment of term loan or a bill or any credit facility is not paid **on the due date fixed by the Bank**, it becomes overdue; and, except in case of agricultural advances, becomes NPA if the period of default in payment/repayment from the overdue date exceeds 90 days.

Crop Loans will become NPA, if the installment of principal and/ or interest remains overdue:

- a. for two crop seasons for short duration crops; and
- b. for one crop season for long duration crops.

Where moratorium for payment of interest is granted, overdues should be reckoned from the due date based on the gestation period allowed and not with reference to the dates of the debits.

Where the due date is unjustifiably and repeatedly changed to avoid the borrowal account becoming NPA, the auditors need to examine the same to the Bank's intention, before taking an adverse view.

Liquidity facility remaining outstanding for over 90 days for securitization transactions as per guidelines on securitization dated 1-2-2006 would be NPA, to be considered for provision.

Due Date

It should be taken as the date on which interest/installment is payable by the borrower.

Interest on various loan accounts is normally debited monthly, and interest should be considered as falling due for payment on the date of debit, unless otherwise contractually agreed.

Installment falls due for payment as per terms of sanction.

Overdues are with reference to the gestation period being over in cases of moratorium, where granted; and in case of staff housing loans default in repayment of principal and interest on the stipulated due dates would determine the status of NPA

In the case of advances for project finance or for agricultural plantations where repayment holiday is granted for payment of interest, due date is only after the moratorium period has lapsed.

In cases of loans to staff, education loans and certain other advances, the interest /installment amount falls due for payment only after the expiry of the stipulated period.

In the case of loans against the Bank's own deposits, interest is due on the date(s) of debit to the loan accounts, irrespective of the dates of credit towards interest on Term Deposit.

If not paid on due date fixed by the Bank, the amount becomes overdue.

Out of order:

(applicable to advances other than Term Loans/Bills Discounted and Purchased)

An account (Cash credit/overdraft) should be treated as 'out of order' if any of the following conditions is satisfied :

- I) Where the outstanding balance remains **continuously** in excess of the sanctioned limit/drawing power; **OR**
- II) Even though the outstanding balance in the principal operating account is less than sanctioned limit/drawing power, but
 - a) there are no credits **continuously** for more than 90 days as on the date of Balance Sheet/classification, or
 - b) the credits are not enough to cover the interest debited during **the same period**.

In case of credit facilities involving hypothecation of stocks, **Drawing Power** should be lower than the Limits sanctioned and the value of **stocks should be net of the unpaid for liability in respect thereof and further net of the stipulated margin; and if such unpaid liability is not netted**, it would result in double finance availed of by the borrower – from the bank and supplier's credit. The security should be tangible, current and realizable.

2. CLASSIFICATION OF ADVANCES:

Banks generally have a laid down system to identify and classify a borrowal account into the classification attributable thereto as per the applicable Prudential Guidelines laid down by the Reserve Bank of India(RBI). In the EDP environment, the relevant parameters are incorporated in the Computer Programme and are expected to be updated, to generate the data and particulars.

Broadly, Advances can be classified as either '**Performing**' or '**Non Performing**', depending on whether they disclose any inherent problem in terms of the risks of trade attached thereto and whether these, in the normal course, generate income for the Bank. Exercise of judgment with regard to operations in the borrowal accounts based on documentation, operations, security and guarantee cover and other monetary and non monetary factors will determine classification **of the Borrower, based on the most adverse status of the account/facilities in any account**. However, fresh facilities given in certain cases of rehabilitation, are not required to be provided, **but the Regulator does not stipulate as to whether income thereon is to be accrued or taken on realization. Logically income should be on realization on such facilities.**

- a. **Performing Advances** are reckoned as Standard Assets where income can be accrued and recognized (on contractual basis) in the Profit and Loss Account.
- b. **Non-performing Advances** are considered to be those that cease to generate income for the bank (dealt with in Para 2.1 of Part A of the RBI Master Circular dated 1-7-2009). **These comprise borrowers identified and categorized as Sub-standard, Doubtful or Loss Assets for provisioning and in respect of which income is not accrued/recognized on contractual basis but recognised only on actual realisation.**

If non performing, a Borrower, may be classified as under, either as sub- standard or doubtful or loss asset.

Central Govt. guaranteed Advances, where the guarantee is not invoked/repudiated will be regarded as non performing for income recognition, though provision is not required to be made in respect thereof (i.e., these are akin to Standard advances)

i) **Sub-standard Asset**

A sub-standard asset is one which has been classified as NPA for a period not exceeding 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterized by a distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

ii) **Doubtful Asset**

A doubtful asset is one which has remained NPA for a period exceeding 12 months. Such an asset has all the characteristics of a sub-standard asset with the additional characteristic that, on the basis of currently known facts, conditions and values, the recoveries may be highly questionable and improbable.

In the case of erosion in the value of the security or frauds committed by the borrowers where the assessed realizable value of the securities has a significant shortfall – 50% or more, the asset would necessarily have to be included as Doubtful and provided for – Refer Para 4.2.9 (i) of the Master Circular dated 1.7.2009.

iii) **Loss Asset**

A Loss Asset (*irrespective of the period elapsed since its sanction/disbursal*), is one where loss has been identified by:-

- a) the bank, or
- b) the internal or external auditors, or
- c) the RBI Inspection,

but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

In the case of erosion in the value of the security or frauds committed by the borrowers where the realizable value of the security as assessed by the Bank/approved valuers/RBI is less than 10% of the outstanding, the asset would be a Loss asset.

– Refer Para 4.2.9 (ii) of the Master Circular dated 1.7.2009.

c. **Basis of classification as NPA in different types of facilities**

The broad criteria for classification of the borrowers as NPA is given below as regards credit facilities of different types; and any doubt about the NPA classification must be internally resolved within one month of the normal date of NPA :

i) **Term Loans**

- **Agricultural Loans (Refer para 4.2.13 of the Master Circular and Para (e) below):**

Unless entitled to relief due to natural calamities which impair the agriculturist's capacity to repay or those who have suffered production and income losses etc.(Refer Para 4.2.13 (ii) to (vi), **or based on Govt. directed relief to farmers**, the following applies:

With effect from 30-9-2004, loans granted for **short duration crops** and **that for long duration crops**, are to be segregated for determination of the period of default in servicing the principal/interest; which default (overdue) for a period of two crop seasons for the former will become NPA, and for default of one crop season, will become NPA in the latter. This is applicable to direct agricultural advances listed at 1.1.1 to 1.1.6 and 1.2.1 to 1.2.3 of the Master Circular (RPCD.No.Plan.BC.9/04.09.01/2008-09 dated July 1, 2008).

The classification status as at 30-9-2004 and beyond of the short/long term loans is critical and should equally apply to loans granted prior to 30-9- 2004.

It is, however, possible that the small, marginal and other farmers could have been subjected to debt waiver/relief and the balances in such accounts may have been nullified.

- **Other Term Loans:**

Such loans become NPA where installments of principal and / or interest remain overdue for a period of more than 90 days from the end of the quarter.

ii) **Bills Purchased and Discounted**

A bill Purchased and Discounted should be treated as NPA if the bill **remains overdue** and unpaid for a period of more than 90 days.

iii) ***Cash Credits and Overdrafts**

A Cash Credit or Overdraft Account should be treated as NPA if the account remains "out of order" for a period of more than 90 days (Refer to definition of "out of order")

**While interest is charged on a monthly basis, the NPAs need to be reckoned with reference to the period of default/ non servicing of the interest for 90 days from the end of each quarter i.e. where interest is not fully paid from the end of each quarter.*

"Quarter" does not necessarily mean calendar quarter, as determination of NPA is an ongoing exercise.

A borrowal account may migrate to a more adverse category within less than the normal stipulated retention period in each classification status, where conditions so warrant and if the account is observed as intrinsically weak on facts or evidence, and deserves a higher provision/write off (including prudential /technical write off).

d. Agricultural Debt Waiver and Relief Scheme 2008

Pursuant to the Budget (2008-09), the RBI issued circulars (RPCD No. PLFS.BC.72 & 74/05.04.02/2007-08 dated 23 & 30-5-2008 and thereafter RPCD No. PLFS.BC.24 /05.04.02/2008-09 dated 4-9-2008) to implement the Scheme; whereby debt waiver and relief could be given in respect of agricultural advances (other than those prudentially written off) to the eligible small/marginal/other farmers.

Claims crystallized and resulting in compensatory claim from the Govt. pursuant to the Scheme and required to be treated as 'Advances' under the sub head **"Amount Receivable from Govt. of India under the Agricultural Debt Waiver and Relief Scheme 2008"** in Schedule 9 of the Balance Sheet, are to be treated as Performing Assets; such payments are to be received @32% by September 2008, 19% by July 2009, 39% by July 2010 and 10% by July 2011.

e. Temporary Deficiencies/Non monetary factors:

Existence of temporary deficiencies may not warrant classification of an account into NPA where defaults in accounts are remedied, particularly in circumstances where the borrower becomes NPA due to:

- non-receipt of stock statements for a period of **3 months** and older statements being used for working out drawings power, which would make the account irregular and if drawings are permitted for 90 days **thereafter, i.e. after irregularity of 3 months;**
- non-review/renewal of limits or non-regularization of ad hoc limits **within 180 days** from the due date/date of ad hoc sanction.

Temporary deficiencies in irregular/overdrawn accounts can also be cured if **all amounts in default** are paid out of genuine sources and not being stray instances of credits.

3. SECURITY AND GUARANTEE:

a) Security

For the purpose of making provisions, the importance of determining the realisable value of securities, estimated on a realistic basis, and the guarantee cover available, need to be kept in view for computing the unsecured portion/deficit, if any, particularly in case of Sub Standard Accounts.

The following points are relevant:

- i) **Primary as well as collateral securities** must be considered for valuation. The securities should preferably be evaluated as at the year-end.

Valuation Reports may be more relevant in NPA Accounts and the periodicity at which these are obtained may be ascertained, and a reasonable periodic interval normally accepted.

- ii) **The latest Stock Statements**, as near the Balance Sheet date, should be called for and be considered. A view may also emerge based on the comparison of the latest audited financial statements and the financial data submitted corresponding to the date of such statements (say, for the earlier year), to see if there are any major deviations therein, as provoke an enquiry. **Such reports must be examined.**

RBI has made it mandatory that in case of NPAs with balances in excess of Rs.5 crores:

- Stock audit be got done by external agencies once a year; and
- Collaterals (immovable properties) are to be got valued once in three years by valuers.

Visits to godowns to verify stocks:

It may normally not be necessary to visit the godowns for verification of stocks where the operations in the accounts are regular and healthy and there is reasonable evidence on record that inspections have been made at periodic intervals **and the existence and market value of security** are not in doubt e.g. where Godown

Registers so indicate, and there is no adverse finding in the Inspection Reports or by other banks in consortium arrangements.

Where there are serious doubts or where internal procedures are not carried out, godown visits may become necessary.

- iii) Book Debts, though not a tangible security, are to be reckoned as a security and advances against Book debts are required to be disclosed in the financial statements as "Secured by tangible securities", with a suitable narration, in the annual accounts.

Collateralised intangible like authorizations, licenses etc. are to be treated as unsecured and disclosed separately.

- iv) The surplus of the securities over the first charge can be considered as security in cases where 2nd charge has been created in favour of the Bank, and there is reasonable certainty that upon satisfaction of the first charge such surplus can be available.

The realisable value of other securities should also be taken into account. These would include realisable value of LIC Policies, shares and other approved securities.

b) **Credit Guarantee(ECGC/DICGC/CGTSI):**

For the purpose of provisioning (other than for assets in " Sub Standard" category), the availability of credit guarantee cover is the criteria irrespective of whether or not the claim is invoked, to determine the unsecured portion of the advance.

4. **SPECIAL CONSIDERATIONS:**

a) **Agricultural Advances**

In respect of agricultural advances, the repayment of interest/ instalment is synchronised with crop seasons for long and short duration crops; and the determination of NPA is linked to defaults in servicing based on the overdues related to the crop seasons.

Direct agricultural advances covered by Para 4.2.13 of the Master Circular are listed in Section E III)

This is subject to rescheduling etc. for farmers in areas of natural calamities and crop failures.

Refer to the debt waiver/relief to agricultural sector, including rescheduling in 2004, 2006 and the scheme covering calamities.

Short/Long duration crops:

With effect from 30-9-2004, the determination of NPAs would depend on the status of overdues in short duration crops or otherwise. Where interest /installments are **overdue** for more than two crop seasons for short duration crops, the advance becomes NPA, while for long duration crops it is **overdues** for one season or more.

b) **Consortium Advances**

In respect of Consortium Advances, the bank must classify the borrowal accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances, irrespective of the fact that the leader may not have remitted funds out of the pooled collection as the share of the bank.

c) **Apportioned Limits/Transfer of accounts from others branches:**

- In respect of apportioned limits:

The Asset Classification adopted by the Main branch should be adopted by all other branches. If a branch has got apportioned limit, it needs to ascertain the Asset Classification from the Main branch. If the branch has apportioned limit to other branches, the Asset Classification has to be done taking into consideration the overall position in the account with all the branches. The main branch should inform the Asset Classification to the respective branches before the year-end.

- Advances transferred from other branches:

In case where a borrowal account is transferred from another branch, the status and operations of the account in the pre-transfer period needs to be ascertained to determine the effect thereof on classification.

d) **Loans Granted under Government Sponsored Schemes**

For loans granted under Government sponsored schemes such as SEEUY, PMRY etc. the assets created out of Bank finance and the subsidy received from the Government and kept under Deposit/Sundry Liabilities are available as securities besides credit guarantee cover under DICGC wherever eligible. Hence NPA, if any, under this category shall be either sub-standard (if adequate security cover is available including subsidy) or doubtful, and not a loss asset.

Back-ended subsidies if received under certain schemes, are expected to be treated not as Deposits, but as a liability under the head "Other Liabilities" till such time as these can be appropriated towards the last installment of the Term Loan, if in "Standard" category.

If an NPA, the loan would have to suffer a provision at its gross value i.e. without adjustment of the subsidy or its being treated as a security.

No interest can be charged on Advances to the extent of such subsidy received.

e) **Advances granted under rehabilitation packages approved by BIFR/term lending institutions (TLIs)- Provisions:**

Where additional facilities are granted to a unit under rehabilitation packages approved by BIFR, term-lending institutions or the bank (on its own or under a consortium arrangement), provision should continue to be made for the dues in respect of existing credit facilities. *As regards the additional facilities, provision need not be made for a period of one year from the date of disbursement in respect of additional facilities sanctioned under rehabilitation packages approved by BIFR/term-lending institutions.*

After the period of one year, the banks in consultation with their auditors would take a view whether there is need for making provisions for the additional facilities sanctioned at par with the old outstanding dues

Such Advances, if in Standard category, need to be critically examined.

f) **Post-shipment Supplier's Credit:**

Where ECGC cover is available and any guarantee is invoked after the exporter files a claim with ECGC, EXIM Bank would pay to the Bank, the guaranteed amount within 30 days. The advance, to the extent of such receipt shall not be NPA.

g) **Devolved LCs/Guarantees**

In respect of LCs/Guarantees issued, where the beneficiary invokes the guarantee/LC, the Bank makes payment to the beneficiary, such amounts are due for payment immediately and the composite balance in the related facility should be considered for assessment of the status of the borrower. In case the amount is not recovered even after 90 days such accounts are to be classified as Non-performing assets.

5. **RECLASSIFICATION OF ADVANCES- Upgradation:**

Generally accounts classified as doubtful or loss assets should not be upgraded other than by way of the remedying of the default and recovery of dues, **from the borrower's own funds and not arising out of fresh facilities sanctioned.**

- a) If the overdues (all amounts in default including those within 90 days prior to account becoming NPA, i.e., interest suspense and interest unapplied in full) are recovered and if accounts fall under the norms prescribed for Standard Asset then the asset can be reclassified as standard asset.

Logically, there can be no Interest Suspense/unapplied interest in accounts classified as Standard/Non performing, other than in Central Govt. guaranteed accounts where guarantee is not invoked/repudiated.

- b) If the installments/interest are rescheduled for payment under nursing etc., the account should show satisfactory performance **for a continuous period of 1 year** and then only it can be classified as Standard Asset.

6. **INCOME RECOGNITION**

The income needs to be recognised in keeping with the basic requirements of the Accounting Standard - "AS-9-Income Recognition".

Income Recognition refers to accounting of interest income, commission and other charges/income at the branch in respect of advances and for other services.

Income Recognition on advances is based on record of recovery and operations in the account. For the purpose of Income Recognition, the **availability of security/credit guarantee cover, is not the criteria.**

The following should be kept in view:

- a) Interest on Sub-standard, Doubtful, and Loss Assets should not be debited/applied to borrowers' accounts once they are so identified/categorized, **unless actual realisation takes place. If the unrealized amount is debited to the Borrower and taken as income, it must be derecognized.**

On accounts identified for the first time as NPAs during the year, the interest income contractually accrued but not realized:

- i) and to the extent debited (for the current and preceding years) to the account of the borrower, must be derecognised and reversed to "Interest suspense" or similar account, and
- ii) be not debited to the borrower's account thereafter or recognized, but recoded in the Memorandum records as Unapplied Interest.

In the cases where the borrower has many accounts and all the accounts are to be treated as NPA because one account has become NPA, then the interest realized on regular accounts can be accounted and treated as income **to the extent the amount stands**

realized. In respect of accounts where interest is not realized, the interest cannot be taken as income.

- b) Other income by way of charges , commission etc. to the extent not realized must also be reversed and derecognised/ not recognized as above. Law charges incurred for recovering the amount should be charged off and record maintained in the Memorandum records.
- c) In case of NPAs comprising Advances against gold ornaments, Govt. and all other kinds of securities , as well as those against the Bank's Term Deposit Receipts, Kisan Vikas Patras, IVPs, National Savings Schemes and Life Policies (**which are not exempted from provisioning requirements**), Income may also be recognized on realization.

d) **Export Finance**

Where ECGC cover is available for post shipment credit, and guarantee if invoked within 30 days from EXIM bank under the EXIM Bank guarantee-cum -refinance programme, and in the event of a default, **to the extent the amount is received**, the advance is not NPA for asset classification/provisioning . **(Refer Para 4.2.17 of the Master Circular).**

In case amounts have been deposited by the importers in a local currency/country, pending clearance of remittances to India to the exporters, the prudential norms for income recognition, asset classification and provisioning are made applicable after a period of one year from the date on which the amount is deposited by the importer in a bank abroad; provided that the advance was not NPA prior to the deposit. **(Refer Para 4.2.18 of the Master Circular)**

e) **Interest Suspense Account (Interest debited to Borrower but in default in NPA):**

The amounts held in Interest Suspense Account or similar account, **should not be reckoned** as part of provisions. Amounts lying in the Interest Suspense Account should be deducted from the relative advances, and provisioning as per the norms should be made on the balance after such deduction. In case the same has ever been subjected to tax, care must be taken to ensure that on recovery, the same is not taxed again - (also keep in view AS 22). *Since this matter is handled at HO, this would be more relevant there, but is given here for information.*

f) **Recoveries in NPA Accounts/Appropriation**

The method of recording recoveries and recognition of income, needs to be understood and as and as per Para 3.3.2 of the Master Circular dated 1-7-2009 the Bank must exercise its right of appropriation in a uniform and consistent manner, Revenue Recognition as per AS 9, issued by ICAI needs to be kept in view; and income not earlier recognized (when certainty did not attach to its realization), should be recognized upon subsequent recovery.

In nutshell the order of appropriation, in the absence of any specific instructions of the constituent, should be:

- interest suspense,
- unapplied interest,
- the principal in default, and thereafter
- the principal;

unless there are also stipulations as regards right of recompense, which would require recovery and recognition prior to appropriation towards the principal.

It , therefore, needs to be enquired as to whether the element of sacrifice earlier given in accounts restructured, rescheduled or rehabilitated, on the condition of the Bank's Right of Recompense, is being considered as income in accounts.

Where recoveries are effected in NPA Accounts beyond the "Interest Suspense", the unapplied income must be applied by debit to the borrowers' accounts to the extent income is recognised.

(It is imperative that the Dummy/memorandum registers to record unapplied interest, are kept updated on the basis of the applicable contractual rates, unless in respect of advances in litigation, such action is not required).

The borrower can be upgraded only on curing of the defaults that lead to the NPA status, i.e. upon the recovery of interest and principal in default **and full recovery in cases of restructuring/rehabilitation etc.**

Recoveries that cannot be appropriated (due to any conditions attached thereto), need to be retained in the books of the Branch as a Liability.

g) **Broad Principle**

Income can be recognised and accrued on all Standard Accounts **(except Central Govt. guaranteed advances in default, where guarantee is not invoked)**. In all other categories of advances, being NPAs (including State Govt. guaranteed Advances), income will be recognised on actual realisation/recovery.

h) **Overview of divergence, if any:**

Comparison and analysis of the aggregate of year-end "Interest Suspense" and "Unapplied Interest" with that of the previous year-end would reveal any divergent trends between the status of classification and income, and should be considered as a good audit tool.

7. **PROVISIONING – Standard Assets:**

Reference must be made to Para 5.5 of the RBI Master Circular dated 1-7-2009 regarding variant rates of provisioning for the components of the Standard Advances, **subject to the following change made subsequently.**

Vide RBI Circular No. DBOD.No.BP.BC. 58 /21.04.048/2009-10 dated November 5, 2009 Banks would, for the year 2009-10, be required to provide 1% on gross advances for Commercial Real Estate (CRE) Sector .

The quantum of provisions required would be as under:

Nature of Standard advance	Provision required on Gross advances -%
a. agricultural and Direct advances to Agricultural and SME sectors	0.25
b. Commercial Real Estate (CRE) Sector *	1.00
c. all other advances	0.40

* Refer RBI Circular No. DBOD.No.BP.BC. 58 /21.04.048/2009-10 dated November 5, 2009

8. **SUMMARY**

Advances, except where special conditions apply to restructuring, Central Govt. Guaranteed accounts etc., are generally required to be judged on their performance parameters, based on documentation, operations, security and guarantee cover and the amounts outstanding and due under various facilities; and based on examination of the credit facilities availed, **the borrowers** are to be classified keeping in view the applicable prudential norms of the RBI, into:

a) Performing (also categorized as **STANDARD**); and

b) Non-performing (categorized as **SUB STANDARD, DOUBTFUL or LOSS**),

Once so classified, there is a mechanical application of the percentage of provisioning as stipulated by RBI; and these are benchmark provisions which are the minimum; and can be accelerated based on judgment of the auditor and to his satisfaction.

Income is to be recognized on standard assets - on the basis of contractual accrual; and Non-performing assets (NPAs) – only on realization.

REFERENCE MAY ALSO BE MADE TO THE RECKONER FOR CATEGORISATION (E I) and THE CHART FOR BASIS OF PROVISIONING (E II) .

AUDIT RISK ASSESSMENT FOR ADVANCES WHERE LOAN PROCEDURES/ DOCUMENTS ARE CONTROLLED BY AN OFFICE OTHER THAN THE BRANCH

Basic verification procedures at the Branch maintaining a borrower’s account, based on documents held at a Centralised Advances Processing Cell/ Centre

In case all or any of the loan procedures (*whether in connection with grant or renewal of credit facilities*) are not conducted at the Branch, but are centralized at any Loan Processing Cell/Centre, (*e.g.,Retail Assets and Small & Medium Enterprises City Credit Centre, Retail Assets Credit Processing Centre, Retail Credit Processing Centre, or by whatever name called*), involving appraisal, sanction, execution of documents, disbursements, collection and holding of post dated

cheques etc., and the documents are in the custody and control of the said centralized Cell/ office, the Auditor should seek confirmation as to preview by the Branch, of the compliance of the applicable RBI prudential norms of asset classification, income recognition and provisioning, in so far as the advances at the Branch are concerned.

Equally he should be satisfied as to the compliance of the appraisal systems, completeness and accuracy of the original records/documents in the custody and control of the centralized office, pursuant to which you are maintaining the borrowal account; and in particular:

- i) that confirmation is available from the said Office as to the number and amount of the advances accounts, and whether these tally with the data in the Branch;*
- ii. that the Sanction Letters and modifications thereof, issued by the said centralized office and held for compliance at the Branch, are duly authenticated (and not merely computer generated, without authentication), and that the centralized office has confirmed that subsequent instructions were issued strictly as per the applicable documentation and sanction terms with all updated modifications/ changes therein; and that these in any case are in consonance with the applicable prudential regulatory norms, based on the Guidelines/regulatory impositions in force.*
- iii. that the system generated data for the Branch advances is in line with all the regulatory built in parameters, based on facts made available from the centralized office as regards matters other than operation of the credit facilities and accounts recorded at the Branch.*
- iv. that the drawing power/limits have been properly computed at the centralized office, including in consortium advances/multiple banking arrangements as conveyed to the Branch for ensuring that the account of the borrower is monitored at the Branch accordingly, without any defaults; and due diligence reports as required have been obtained.*
- v. that adverse features pointed out by the Internal/concurrent/inspection audit of the centralized office as regards the appraisal, disbursement, sanction, documentation under their control, have been considered for classification of the account; and further that there are no unbanked post dated cheques or other similar instruments, held by the said office affecting the borrowers' accounts.*
- vi. that for the purpose of audit, the Branch will provide evidence at the Branch, as to the documents, security and guarantee aspects etc. to justify the classification of the amount reflected in the branch books as advances; and compliance of information sought by the Auditor, including on all large advances, in the manner required.*

The above information is critical to examination/reporting on advances.

RECKONER FOR CATEGORISATION OF ADVANCES INTO STANDARD/SUBSTANDARD/DOUBTFUL/LOSS ASSETS AS AT 31.3.2010 E I

PERFORMING		NON PERFORMING(defined by RBI Refer Para2 of the Master Circular dated 1.7.2009)	
STANDARD ASSET(Not defined by RBI)	SUB-STANDARD(NPA for upto12 months)	DOUBTFUL ASSET *	LOSS ASSET *
- It is not NPA with no arrears of amounts due or in default, <i>and will include:</i> - finance for industrial projects/agriculture within the moratorium period of interest. - unremitted export proceeds received but held up abroad for a period of one year, where there are restrictions by the foreign country to repatriate. - <i>additional Credit facilities for a period of one year</i> in restructured accounts -additional credit facilities pursuant to rehabilitation/nursing program/package finalized for BIFR cases and sick SSI units, in consortium with other banks - fully secured principal where the instalments or interest are rescheduled before, as well as after commencement of commercial production but before the asset is classified as sub-standard. (the element of sacrifice having been written off/provided) - upgraded restructured/ rescheduled advances with record of satisfactory performance after the specified period after one year of the date of the first payment of principal/interest. - Standard asset taken over in Take-out Finance arrangements. - amount received under the guarantee-cum-refinance programme of EXIM Bank to exporters in default. - there are no <i>non monetary defaults</i> including reviews/ renewals of limits and receipt of stock statements on time. - Central Govt. guaranteed accounts, where guarantee is not invoked/ repudiated	Accounts, where the current net worth of the borrower/guarantor or the current market value of the security is not sufficient to ensure full recovery; and accounts identified as having well defined weaknesses that jeopardize the liquidation of the advance, and characterized by the distinct possibility of some loss, unless deficiencies are corrected. <i>These include:</i> -all existing accounts under this category for a total duration of less than or equal to 12 <i>months</i> since their identification, and fresh accounts identified during the year. -advances, otherwise satisfactory, but are NPA due to <i>non monetary defaults</i> where the regular/ adhoc credit limits facilities are not reviewed/renewed for 180 days from the due date/date of ad hoc sanction; or where stock statements are not received for 90 days after the account became irregular (i.e. where advances are continued based on stock statements that are older than 3 months from the due date) - where in the pre-restructuring stage the borrower is either sub standard or due to any defaults, becomes NPA pending disposal of application/ proposal for restructuring; or in the post restructuring outside the prescribed time limits, the status is not restored	All existing accounts in sub standard category for more than 12 months and new accounts transferred to this category, and those which, due to inherent weaknesses can be straight away classified as doubtful Where in the pre-restructuring stage the status of the borrower migrates in the normal course to Doubtful, including with efflux of time or other defaults, in cases where disposal of application/ proposal for restructuring is pending disposal Refer Para 4.2.9(i) as regards the erosion in the value of the security realizable as would determine the status of the asset as a doubtful asset i.e., where there is significant erosion in the value of the security (irrespective of the advance), and the same is less than 50% of the value as assessed or accepted by the Bank or by RBI as per the latest inspection, the same would be a doubtful asset. Refer Para 4.2.9(ii) as regards the erosion in the value of the security realizable, if less than 10% of the outstanding in the account as would determine the status of the asset as a loss asset; as also in cases of frauds by borrowers, causing serious impairment to the asset . These assets, unless written off, need to be provided for @ 100%. Unless reversal of its classification status takes place, a borrower is to be classified as Loss asset with efflux of time , where the advance is retained in the doubtful classification for over 36 months [Note: Date of identification of Advance as NPA is also very relevant, and cannot be changed so that the period of retention thereof as doubtful asset, is correctly considered. In records maintained under EDP environment, the field of <i>the date of NPA</i> is frozen]	A Loss Asset is one where the outstanding is considered uncollectable/ unrealisable or where the salvage value of security is negligible (say less than 10% of the outstanding advance).

RECKONER FOR CATEGORISATION OF ADVANCES INTO STANDARD/SUBSTANDARD/DOUBTFUL/LOSS ASSETS AS AT 31.3.2010				E I
PERFORMING		NON PERFORMING(defined by RBI Refer Para2 of the Master Circular dated 1.7.2009)		
STANDARD ASSET(Not defined by RBI)		SUB-STANDARD(NPA for upto12 months)	DOUBTFUL ASSET *	LOSS ASSET *
I TERM LOANS - Performing advances where the interest/ installments of principal due and including up to 31-12-2009 have been recovered. - NPAs purchased from another bank, for the initial period of 90 days; and such status to be continued only if there are recoveries with reference to the cash flows estimated at the time of purchase - rescheduled term loans and fresh short term agricultural loans in areas notified as affected by natural calamities, as a relief measure, if within the revised period and without default thereafter; and claims (retained in separate account heads as specified), comprising agricultural debt waiver/relief as per the Agricultural Debt Waiver and Relief Scheme 2008 applicable to the eligible small/marginal/other farmers.	I TERM LOANS a) Where the account has gone into default and is overdue as regards: - principal (installments) for over 90 days during the year and the default is not cured up to 31-3-2010; and /or - servicing of interest for the period of 90 days after it became due from the end of any quarter b) Loans restructured when these were in sub standard category; except additional advance for a period of one year c) NPAs purchased from another bank, if not with satisfactory performance will be NPA, if sub standard in the selling bank's books	I TERM LOANS If the borrower has remained in the sub-standard category for a period exceeding 12 months, unless due to erosion in the value of the security, the asset is a loss asset. NPAs purchased from another bank, if not with satisfactory performance will be NPA, if doubtful in the selling bank's books	I TERM LOANS Where the asset is considered as a loss asset by virtue of any other facility being a loss category.	

RECKONER FOR CATEGORISATION OF ADVANCES INTO STANDARD/SUBSTANDARD/DOUBTFUL/LOSS ASSETS AS AT 31.3.2010				E I
PERFORMING		NON PERFORMING(defined by RBI Refer Para2 of the Master Circular dated 1.7.2009)		
STANDARD ASSET(Not defined by RBI)	SUB-STANDARD(NPA for upto12 months)	DOUBTFUL ASSET *	LOSS ASSET *	

II.CASH CREDIT/OVERDRAFT III.LOANS REPAYABLE ON DEMAND The outstanding balance does not remain continuously in excess of the sanctioned limit/Drawing Power for a period of more than 90 days; and the credits in the account are enough to cover the interest debits during the same period.	II.CASH CREDIT/OVERDRAFT III.LOANS REPAYABLE ON DEMAND Where the account is out of order for over 90 days i.e. a) In case where the outstanding continuously exceeds limit/DP; or b) Where the outstanding is less than limit/ drawing power i) if there are no credits continuously for more than 90 days as at 31.3.2010 or if the credits from 1-10-2009 to 31.12.2009 are not adequate to cover interest debited for the same period.	II.CASH CREDIT/OVERDRAFT III.LOANS REPAYABLE ON DEMAND If the asset has remained in the sub-standard category for a period exceeding 12 months.	II.CASH CREDIT/OVERDRAFT III.LOANS REPAYABLE ON DEMAND Where the outstanding is considered uncollectable/unrealisable or where the value of security is negligible (say less than 10% of the outstanding advance). Refer Para 4.2.9(ii) as regards the erosion in the value of the security realizable (including in cases of frauds) as would determine the status of the asset as a loss asset.
IV.BILLS PURCHASED/DISCOUNTED If the bill is not overdue Or If the bill is overdue after 31-12-2009.	IV.BILLS PURCHASED AND DISCOUNTED If the bill has remained overdue for a period of more than 90 days i.e. overdue prior to 31-12-2009. Where bills discounted under LC are not accepted on presentation and amount remains in default	IV.BILLS PURCHASED/DISCOUNTED If the asset has remained in Sub-standard Category for a period exceeding 12 months.	IV.BILLS PURCHASED/DISCOUNTED Where the outstanding is considered uncollectable/unrealisable or where the value of security is negligible (say less than 10% of the outstanding advance).

Notes: 1. Classification status of the borrower is to be in the most adverse category in any of the funded credit facilities.

2 * Classification of advance to "Doubtful" or "Loss" category may get accelerated in time where there is serious impairment, and erosion in the value of realisable security is significant, i.e., to Doubtful category, if erosion is more than 50%, based on valuation as assessed by bank/valuers/RBI {Refer RBI Master Circular dated 1-7-2009 – Paras 4.2.9 (i) and "Loss" category, if erosion is more than 90% and the realizable value is less than 10% of the borrowing – Para 4.2.9 (ii)}.

3 As per guidelines (Refer Para 6 of Part A of the Master Circular dated 1-7-2009), purchase/sale of Assets in NPA classification can be made (individually or as a pool of accounts) for upfront sale consideration in cash , if such assets have remained in that(NPA) classification for at least two years in the books of the selling bank; and there is a laid down Board Policy for the transaction being **(without recourse)** and not on the basis of a contingent price or subsequent liability devolving on the selling bank). *Such assets cannot be sold back to the same bank and must be held by the buying bank for at least 15 months.*

4 Compensatory claim crystallized and separately recorded in the Advances portfolio in respect of the eligible amounts of agricultural debt waiver/relief as per the applicable Scheme of 2008, need not be treated as Non Performing as these are recoverable from the Central Government.

5. Care needs to be taken in accounts subject to restructuring in each classification, to accurately determine the amounts requiring provision, sacrifice and retention of FITL provision, if carved out off interest in default.

AUDIT OF BANK BRANCH ACCOUNTS FOR 2009-10**CHART SHOWING PROVISIONS REQUIRED BASED ON CATEGORISATION OF ADVANCES ACCOUNTS (BORROWER-WISE) AS AT 31.3.2010.**

The branches are required to categorise advances for the purpose of making provisions as per RBI prudential norms, as per the following Chart.

Classification	Stipulated/ Prudential level of provision	Remarks
a. Standard	0.25% on aggregate gross outstanding SME/ Direct agricultural advances 1.00% on Commercial Real Estate(CRE)Sector* 0.40% for other gross funded advances	Refer Para 5.5 of the Master Circular dated 1-7-2009, suggesting provision on global loan portfolio on gross basis. * RBI Circular dated 5-11-2009
b. Sub-standard	20% in respect of the gross aggregate outstanding funded exposure where the total security falls short of 10% of the total funded and unfunded exposures 10% of the residue gross funded exposure	Refer E II for illustrations of methodology for making provisions, based on exposures Allowance for security/guarantee cover, even if available, is not to be considered for recommending provision, which is to be computed on the gross funded advances. (Refer Para 5.4(i) of the Master Circular)
c. Doubtful	100% on unsecured portion plus on secured portion as under: 20% Upto 1 year (24months as NPA) 30% One to three years (24 to 48 months) 100% More than 3 years (beyond 48 months as NPA)	Deficit=Advance minus [Security + Proportionate amount of credit guarantee cover, if available Credit Guarantee of CGTSI/ECGC/DICGC only Borrower/ other Guarantors' worth should not be considered. Realisable value of security should be taken on realistic basis.
d. Loss (determined as such based on examination of accounts including by statutory auditors/ RBI/ or Bank inspection)	100% to be provided/ written off <i>(also prudential/technical write off at a centralized level, even if retained in the books of the branch)</i>	Accounts which require full provision fall under this category, except for unappropriated cash recovery. Advances classified as doubtful for more than 3 years are also akin to Loss Assets and require 100% provision
e. Projects under implementation - FITL/ Investments and -upgraded restructured accounts	100% of income recognised earlier; and provision made earlier not to be reversed 100% of provision made while NPA Sacrifice on restructuring must be computed and provided for in the year of sacrifice	Refer Para 4.2.15 for stages/time of restructuring and classification, which, if fully covered by security in substandard, also continues in the same classification. Such accounts cannot be upgraded till one year of satisfactory performance.

In case of accounts subject to restructuring, the provisions shall be made on the above basis, notwithstanding that restructuring will result in additional provision by way of the sacrifice element, which additional provision has to be retained separately in the accounts for advances in the Standard and NPA classification(Sub Standard and Doubtful), and reviewed at each accounting period .

AUDIT OF BANK BRANCH ACCOUNTS FOR 2009-10**CHART SHOWING PROVISIONS REQUIRED BASED ON CATEGORISATION OF ADVANCES ACCOUNTS (BORROWER-WISE) AS AT 31.3.2010(Contd.).**

- Notes :
- As at 31.3.2010 most of the banks would have no credit guarantee cover of DICGC.
 - An account once classified as NPA in Sub-Standard category, unless the status is reversed, or the same becomes doubtful or 'loss', shall remain in that category for 12 months.
Classification of borrower may get accelerated as "doubtful" or "loss" without reference to the normal time-lag stipulated, where there is serious impairment or significant erosion in the value of realisable security, as assessed by the bank/ valuers/RBI; and the borrower may get categorized as "Doubtful" or loss if such erosion exceeds 50% or 90% or due to fraud
(refer Section A- Paras 4.2.9(i) and (ii) respectively of the Master Circular dated 1.7.2009)
 - On examination of the individual advances accounts, the Borrower needs to be given the status as per the most adverse category determined in any credit facility, including where there is crystallization of the off balance sheet exposures.
All accounts of sole proprietors shall have the same categorization
 - In case of NPAs (including sub-standard assets) each with balance of Rs.5 crores and above, reliance may be placed on:
 - stock audit by external agencies, which audit/valuation is mandatory once a year; and
 - valuation of collaterals, which the bank must get done once every three years.
 - Restructuring/reschedulement/renegotiation must be on the basis of viability and cannot be done retrospectively; and would require serious review, if done frequently.
 - Secured portion of an advance** shall not include intangibles like rights, licenses, authorizations that need to be classified as unsecured and shown separately; also requiring reclassification of the comparative figures of the previous year.
 - It may be noted that provision will have to be made in respect of both the secured (10%) and unsecured(additional 10%) exposures (after considering funded and non-funded exposures) in the cases of borrowers identified as Sub Standard.

Thus, valuation of the security would become relevant in such accounts.

The following illustrations would help in understanding the methodology to be adopted.

<u>EXPOSURES</u>		<u>S E C U R I T Y A S S E S S E D (Tangible)</u>						
Nature	Amount(Rs)	I	II	III	IV	V	VI	VII
						#	#	#
FUNDED	100	129	99	39	19	10	8	@ 2
UNFUNDED	200	21	21	21	21	21	21	19
TOTAL (Rs)	<u>300</u>	<u>150</u>	<u>120</u>	<u>60</u>	<u>40</u>	<u>31</u>	<u>29</u>	<u>21</u>
	===	===	===	===	===	===	===	==
Security(%) to Total Exposure		50	40	20	13.33	10.33	9.66	7
Provision required (based on % of funded)		10	10	10	10	10	20	20

Notes:

- I, II, III, IV, V, VI, VII represent individual borrowers
- @ It may be noted that the assessed security in funded exposure is only 2% (i.e., less than 10% criteria adopted to treat the asset as a Loss Asset as per Para 4.2.9 (ii) of the Prudential Norms, but the same cannot be done as the assessed security will also reckon that held in Unfunded exposures (Rs. 19); the assessed total security, being more than 10% of the funded exposure (Rs.21 i.e. Rs.2 + Rs.19) .

AUDIT OF BANK BRANCH ACCOUNTS FOR 2009-10

CHART SHOWING PROVISIONS REQUIRED BASED ON CATEGORISATION OF ADVANCES ACCOUNTS (BORROWER-WISE) AS AT 31.3.2010 (Contd.).

EXPOSURES		S E C U R I T Y A S S E S S E D (Tangible)						
Nature	Amount(Rs)	I	II	III	IV	V	VI	VII
					#	#		
FUNDED	200	251	111	51	31	22	@ 18	10
UNFUNDED	100	9	9	9	9	9	9	9
TOTAL(Rs)	<u>300</u>	<u>260</u>	<u>120</u>	<u>60</u>	<u>40</u>	<u>31</u>	<u>27</u>	<u>19</u>
	===	===	===	===	===	===	===	==
Security(%) to Total Exposure		86.66	40	20	13.33	10.33	9	6.33
Provision required(Rs) (based on % of funded)		20	20	20	20	20	40	@@

Notes:

1. I, II, III, IV, V, VI, VII represent borrowers
2. @ It may be noted that the assessed security in funded exposure is only9% (i.e., less than 10% criteria adopted to treat the asset as a Loss Asset as per Para 4.2.9(ii) of the Prudential Norms, but the same cannot be done as the assessed security will also reckon that held in Unfunded exposures (Rs. 9);the assessed total security, being more than 10% of the funded exposure(Rs.18 i.e. Rs.9 + Rs.27 = 13.5% of funded exposure) .

It would no doubt be clear that the Borrower would be a problem account, to be carefully examined, notwithstanding the technical prudential norms requiring 20% provision (Rs.20); and the account may require ad hoc or additional provision due to its inherent weaknesses.

3. @@ Since the total assessed security is less than 10% of the funded exposure as well as the unfunded exposure, whether taken individually or in the aggregate, the Borrower will have to be classified as a Loss Asset, by virtue of the definition as per the prudential norms.

It would no doubt be clear that the Borrower would be a problem account, to be carefully examined, notwithstanding the technical prudential norms, and may require ad hoc, generic or additional provision due to its inherent weaknesses.

Income Recognition generally

Standard Advances	To be accrued by debit to borrowers' accounts
Non Performing Advances	Upon identification of NPA– past accrued income to be derecognised if not realised and to be recognized on realization thereafter.

OTHER CLARIFICATIONS ON ADVANCES:**1. Agricultural advances**

- a) In respect of **direct advances granted for agricultural purposes@** listed in Section I of the Master Circular on lending to priority sector (RPCD PLAN BC.9/ 04.09.01/2008-09 dated 1-7-2008; also appearing as Annexure I to the Master Circular on Prudential norms (DBOD.BP.BC.17/21.04.048/2008-09 dated 1-7-2009) as under :

DIRECT FINANCE, indicating target finance	
1. 1	Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such finance] for Agriculture
1.1.1	Short-term loans for raising crops, i.e. for crop loans. This will include traditional / non-traditional plantations and horticulture.
1.1.2	Advances up to Rs. 10 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.
1.1.3	Working capital and term loans for financing production and investment requirements for agriculture.
1.1.4	Loans to small and marginal farmers for purchase of land for agricultural purposes.
1.1.5	Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security.
1.1.6	Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, harvesting, grading, sorting, processing and transporting undertaken by individuals, SHGs and cooperatives in rural areas.
1.2	Finance to others [such as corporates, partnership firms and institutions] for Agriculture
1.2.1	Loans granted for pre-harvest and post harvest activities such as spraying, weeding, harvesting, grading, sorting and transporting.
1.2.2	Finance up to an aggregate amount of Rs. one crore per borrower for the purposes listed at 1.1.1, 1.1.2, 1.1.3 and 1.2.1 above.
1.2.3	One-third of loans in excess of Rs. one crore in aggregate per borrower for agriculture.

(@This is applicable to all direct agricultural crops such as paddy, wheat, oilseeds, sugarcane etc. where interest/installment repayments are linked with harvest of the crop).
In respect of other activities assessment of NPA should be done as in case of other advances where 90 days is the delinquency norm.

- b) **Agricultural Loans Affected by Natural Calamities etc:**

Subject to any relief/waiver to the agricultural sector as per directions to the bank, as per Clause 4.1.13 where natural calamities impair the repaying capacity of agricultural borrowers,

- banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines contained in RBI circular RPCD. No.PLFS.BC.6/ 05.04.02/ 2004 05 dated July 1, 2005.
- the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA and the revised terms and conditions will determine classification as NPA if interest and/or instalment of principal remains overdue for two crop seasons for short duration crops and for one crop season for long duration crops.

While fixing the repayment schedule in case of rural housing advances granted to agriculturists under Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, banks should ensure that the interest/ instalment payable on such advances are linked to crop cycles.

- c) **AGRICULTURAL DEBT WAIVER/RELIEF (Refer also Part C of the Master Circular of 1-7-2009)**

Based on the Union Budget for 2008-09, a scheme known as Agricultural Debt Waiver and Relief Scheme 2008 was formulated to give advantage to (a)small, marginal and (b)other farmers and reference may be made in this regard to the RBI Circulars, RPCD No. PLFS.BC.72 & 74/05.04.02/2007-08 dated 23 & 30-5-2008 and RPCD No. PLFS.BC.24/05.04.02/2008-09 dated 4.9.2008.

Eligibility criteria for waiver/relief:**Categorisation of farmers and loans eligible****For Crop Loan and Investment Credit for direct agricultural activity – if farmer cultivating land @@****For Investment Credit for allied activities irrespective of land cultivated – Principal Amount of Loan:****A. For full debt waiver* to :**

- Marginal farmer
- Small farmer

Upto 1 hectare (2.5 Acres)
1 to 2 hectare (2.5 Acres to 5 Acres)
[@@ land holding as per evidence with Branch]

Rs.50,000 or less in case of both Marginal / Small farmer

B. For OTS rebate (debt relief) of 25% to:**

Other farmers

in excess of 2 hectares (5 Acres)

in excess of Rs.50,000

* Relevant to action required for the year ended 31-3-2009

**Not earlier covered by scope of work of the auditor, due to the time frame allowed for meeting the pre conditions of the debt relief.

For purpose of eligibility:

a). Direct Agricultural Loans

- Short term production loans (other than against pledge / hypothecation of agricultural produce), and
- Investment loans

Such loans should be to individual farmers or groups of individual farmers where disaggregated data is available for each farmer.

(Loans to corporate, partnerships, societies other than co-operative credit institutions are not eligible)

b) Short term production loan

Loan given in connection with the raising of crops repayable within 18 months and will include working capital loan not exceeding Rs.1 lakh for traditional / non traditional plantations and horticulture.

c) Investment Credit (usually term loans)

- i) **For direct agricultural activities** – for meeting outlays relating to replacement / maintenance of wasting assets and capital investment designed to increase output from land e.g., sinking new / deepening of existing wells, installation of pump sets, purchase of tractors, bullocks, land development.
- ii) **For allied activities** for acquiring assets allied to agriculture, e.g., dairy, poultry farming, goatery, sheep rearing, piggyery, fisheries, bee-keeping, green houses and biogas.

The broad features for debt waiver are summarized hereunder, for information, though not relevant for the year 2009-10 for action required on accounting:

Basics of the scheme:

1. All direct agricultural loans to farmers. (given between 01.04.1997 and 31.03.2007 overdue on 31.12.2007 and remaining unpaid till 29.02.2008) for waiver / relief comprise :
 - i) **Crop loans @ – short term production loan**
@ includes crop insurance premium and excludes unrealized charges and interest.
 - ii) **Investment credit for direct agricultural activities**
(Activity specifically for purchase of land, construction of house/shed, fencing etc. are not covered. However, any composite loan for sheds, fences, pens etc. are covered for poultry farming sheep rearing, piggyery, cattle farm)
 - iii) **Investment credit for allied activities**
2. Direct agricultural loans disbursed under Kisan Credit card (KCC) are covered for waiver / relief.
3. Besides crop loans normally given and due, those rescheduled in 2004, in 2006 and as per the GOI Scheme are also covered for waiver.
4. Debt Waiver shall be the amount overdue as on 31.12.2007 or the unpaid amount as at 29.02.2008, whichever is lower as per books of the branch.
(A single eligible borrower in entitled to waiver in each independent account)
5. Each farmer shall be given a Certificate of Debt Waiver of the eligible amount.
(This must be referred to and any differences between the Certificate and relief given are to be reported)
6. The Interest outstanding must not exceed the principal amount for debt waiver.
7. Accounts prudentially written off are not eligible. **The Branch needs to certify that the amounts waived do not include any prudentially written off accounts.**
8. Interest in excess of 7% on crop loans disbursed after 01.04.2006 shall not be eligible.
9. The eligible farmers who are aggrieved at non-inclusion of their accounts for waiver can complain to the Bank and such complaints are to be disposed of within one month (October 2008).

Debt Relief to eligible farmers

Prudential Norms applicable to the agricultural debt relief for 'other farmers' (other than small and marginal farmers as defined) in terms of the Agricultural Debt Waiver and Debt Relief Scheme, 2008

Attention is drawn to RBI circulars DBOD.No.BP.BC. 26, 112 and 140 / 21.04.048/2008-09 respectively dated 30-7-2008, 5-3-2009 and 25-6- 2009 conveying the Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy in respect of the Agricultural Debt Waiver and Debt Relief Scheme, 2008, **as applicable to agricultural debt relief to 'other farmers'** . Further RBI has issued another Circular No. DBOD.No.BP.BC. 35/21.04.048/2009-10 on 31-8-2009.

The Government of India which had earlier decided to make the accounts of "other farmers" eligible for the debt relief of 25% if they pay their entire share of 75% as one single instalment, and deposit the same by 30-6-2009, extended the last date of the payment (of 75%) of the overdue portion up to December 31, 2009. It was also conveyed that if the banks opted, as allowed, to receive even less than 75% of the eligible amount under OTS **and bear the difference themselves**, the Government will pay only 25% of the actual eligible amount under debt relief.

While no interest on the eligible amount was allowed to be charged from the other farmers for the period from 29-2-2008 till 30-6- 2009, the banks were allowed to charge the normal rate of interest on the eligible amount with effect from 1-7-2009 till the date of settlement.

Where the farmers covered under the Debt Relief Scheme have given the undertaking to pay their share under the OTS, their relevant accounts may be treated by banks as 'standard'; / 'performing'; provided :

- (a) adequate provision is made by the banks for the loss in present value (PV) terms for all the receivables due from the borrowers. (For computing the amount of loss in PV terms under the Scheme, the balance amount receivable from the farmers may be assumed to be due on December 31, 2009, and the interest payments would be as decided by the Bank. The cash flows should be discounted to the present value at the interest rate at which the loan was granted including the element of interest subsidy, if any, available from the Government.
- (b) such farmers pay their share of the settlement latest by the revised last date, i.e. 31-12-2009.

In case, of default by the farmers in making the payment up to 31-12-2009, the outstanding amount in the relevant accounts of such farmers shall be treated as NPA. The asset classification of such accounts shall be determined with reference to the original date of NPA, (as if the account had not been treated as performing in the interregnum based on the aforesaid undertaking). On such down-gradation of the accounts, additional provisions as per the extant prudential norms should also be made.

The bank is expected to determine:

- Eligible other farmers who have complied with the preconditions of the Scheme and contributed their share
- The share borne by the bank where less than 75% was allowed to be contributed
- The aggregate amount of such advances that need to be segregated and held in “Amount receivable from Government of India under Agricultural Debt Relief Scheme 2008” comprising claim from the Govt of India
- **The amount where the above conditions have not been satisfied and the accounts are treated as NPAs from the effective dates for provisioning.**

In respect of 'other farmers' eligible for debt relief, and having satisfied the 75% payment, banks may open an account for Debt Relief Scheme, for recovery of the compensatory claim and debit the same in a separate account head styled “Amount receivable from Government of India under Agricultural Debt Relief Scheme 2008” and treat and show the same as an advance in Schedule 9 (Advances) of the Balance Sheet.

In case the Banks, suo moto have extended the Scheme for Debt Relief after 31-12-2009, when it originally closed (till it was extended through the Budget on 26-2-2010) , the Bank would not be entitled to the compensatory claim from the Govt of India and would have to bear the loss of irrecoverable debts.

2. Restructuring/Rescheduling of Loans

Reference may be made to a separate Section B in the Master Circular dated 1-7-2009 that deals with Restructuring of Advances which has the following Para-wise contents:

Para Matter

- 9** Background on Restructuring of advances
- 10** Key Concepts
- 11** General Principles and Prudential Norms for Restructured Advances
 - 11.1 Eligibility criteria for restructuring of advances
 - 11.2 Asset classification norms
 - 11.3 Income recognition norms
 - 11.4 Provisioning norms
- 12** Prudential Norms for Conversion of Principal into Debt / Equity
 - 12.1 Asset classification norms
 - 12.2 Income recognition norms
 - 12.3 Valuation and provisioning norms
- 13** Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments
 - 13.1 Asset classification norms
 - 13.2 Income recognition norms
 - 13.3 Valuation and provisioning norms
- 14** Special Regulatory Treatment for Asset Classification
 - 14.1 Applicability of special regulatory treatment
 - 14.2 Elements of special regulatory framework
- 15** Miscellaneous
- 16** Disclosures
- 17** Illustrations
- 18** Objective of Restructuring

As regards “Funded Interest” recognized as income and “conversion into equity or other securities - Para13 which deals with **Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments**, requires the following:

13.1 **Asset classification norms**

The FITL / debt or equity instrument created by conversion of unpaid interest will be classified ***in the same asset classification category in which the restructured***

advance has been classified. And further movement therein would be based on the subsequent asset classification of the restructured advance.

13.2 Income recognition norms

13.2.1 The income, if any, generated on FITL/such instruments shall be accrued, if in Standard Classification and on realization, if NPA.

13.2.2 The unrealised income represented by FITL / Debt or equity instrument should have a corresponding credit in an account styled as **"Sundry Liabilities Account (Interest Capitalization)"**.

13.2.3 In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such up gradation, **not exceeding the amount of interest converted into equity.**

13.2.4 Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received will be recognized in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

13.3 Valuation & Provisioning norms

Valuation and provisioning norms would be as per para 12.3 . which requires such instruments to be held under AFS and valued as per usual valuation norms.

Equity classified as standard asset should be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any. In case the latest balance sheet is not available the shares are to be valued at Re 1. Depreciation on these instruments should not be offset against the appreciation in any other securities held under the AFS category.

The depreciation, if any, on valuation may be charged to the Sundry Liabilities (Interest Capitalisation) Account.

The corresponding provisions in the earlier year were as under:

- i) **funded interest** recognized as income is to be fully provided, and income recognition must be on realization basis, and not if the amount overdue has been funded; and
- ii) **funded interest converted into equity, debentures and other instruments** - full provision is to be made for the in addition to the depreciation on the related securities. The securities should be categorized as "Available for Sale" at lower of cost or market. In case of conversion of the NPAs to debentures, these must be treated as NPAs and income recognized on realization. *Income earlier recorded and converted into securities must be taken on redemption.* The loans and securities must have the same classification as NPAs.

3. **SSI financing** is to be considered as **PRIORITY SECTOR** for the Balance Sheet sub classification and disclosure and financing to the Medium Enterprises is not Priority Sector lending.

4. Guidelines on rehabilitation of sick SSI

Provision should be considered for **rehabilitation of sick SSI units covered by Clause 6 of the RBI Master Circular** RPCD.SME & NFS. BC. No.10/ 06.02.31/ 2009-10 dated 1-7-2009 which deals with Lending to Micro, Small & Medium Enterprises (MSME) Sector, where the rehabilitation package should be fully implemented, based on the parameters for grant of relief and concessions for revival of potentially viable sick SSI units , within six months from the date the unit is declared as potentially viable / viable.

As per the definition, a unit is considered as sick when

- any of the borrowal account of the unit remains substandard for more than 6 months or
- there is erosion in the net worth due to accumulated cash losses to the extent of 50% of its net worth during the previous accounting year and the unit has been in commercial production for at least two years.

During this six months period of identifying and implementing rehabilitation package banks/FIs are required to do "holding operation" which will allow the sick unit to draw funds from the cash credit account at least to the extent of deposit of sale proceeds.

Following are broad parameters for grant of relief and concessions for revival of potentially viable sick SSI units:

- (i) Interest on Working Capital - Interest 1.5% below the prevailing fixed/ prime lending rate, wherever applicable
- (ii) Funded Interest Term Loan - Interest Free
- (iii) Working Capital Term Loan - Interest to be charged 1.5% below the prevailing fixed / prime lending rate, wherever applicable
- (iv) Term Loan - Concessions in the interest to be given not more than 2 % (not more than 3 % in the case of tiny / decentralised sector units) below the document rate.
- (v) Contingency Loan Assistance - Concessional rate allowed for Working Capital Assistance

4. Debt Restructuring for Small and Medium Enterprises (SMEs):

Attention is drawn to Para 4.2.17 in the Master Circular with regard to **Debt restructuring mechanism for Small and Medium Enterprises (SMEs)**, with regard to which also Notes on the annual Accounts must have additional disclosures.

RPCD.SME & NFS. BC. No.10/ 06.02.31/ 2009-10 dated 1-7-2009 deals with

Master Circular Lending to Micro, Small & Medium Enterprises (MSME) Sector defines such enterprises as under:

Definition of enterprises	Enterprises engaged in	
	manufacture or production, processing or preservation of goods	providing or rendering of services
	Where investment in plant and machinery (<i>original cost excluding land and building and the items specified by the Ministry of Small Scale Industries</i>)	whose investment in equipment (<i>original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006</i>)
micro enterprise	does not exceed Rs. 25 lakh;	does not exceed Rs. 10 lakh
small enterprise	more than Rs. 25 lakh but does not exceed Rs. 5 crore	is more than Rs.10 lakh but does not exceed Rs. 2 crore
medium enterprise	more than Rs.5 crore but does not exceed Rs.10 crore.	is more than Rs. 2 crore but does not exceed Rs. 5 crore

5. **Projects under implementation (Refer para 4.2.15 of Part A of the Master Circular)**

The projects under implementation are grouped into three categories for the purpose of determining the date when the project ought to be completed:

Category I: Projects where financial closure had been achieved and formally documented.	Category II: Projects sanctioned before 1997 with original project cost of Rs.100 crore or more where financial closure was not formally documented.	Category III: Projects sanctioned before 1997 with original project cost of less than Rs.100 crore where financial closure was not formally documented.
Classification: the asset may be treated as <i>standard asset for a period not exceeding two years beyond the date of completion of the project, as originally envisaged at the time of initial financial closure of the project.</i>	Classification: the asset may be treated as <i>standard asset for a period not exceeding two years beyond the deemed date of completion of the project, as decided by the Group.</i> Banks, which have extended finance towards such projects, may approach the lead financial institutions to which a copy of the independent Group's report has been furnished for obtaining the particulars relating to the deemed date of completion of project concerned.	Classification: <i>the asset may be treated as standard asset only for a period not exceeding two years beyond the date of completion of the project as originally envisaged at the time of sanction.</i>
ii. <i>in case of time overruns beyond the aforesaid period of two years, the asset should be classified as sub standard regardless of the record of recovery and provided for accordingly.</i>		
iii. As regards the projects financed by the FIs/ banks after 28th May, 2002 , the date of completion of the project should be clearly spelt out at the time of financial closure of the project. In such cases, if the date of commencement of commercial production extends beyond a period of six months after the date of completion of the project, as originally envisaged at the time of initial financial closure of the project, the account should be treated as a sub standard asset. However, for Infrastructure projects alone , with effect from March 31, 2008, if the date of commencement of commercial production extends beyond a period of two years after the date of completion of the project, as originally envisaged, the account should be treated as substandard		

Asset classification

New insertion in clause 4.2.15 (in bold):

- v. It is, however, clarified that in terms of aforesaid paragraph, a project can remain classified as "standard" asset only if both the following conditions are satisfied :
- i. the delay in commencement of commercial production is not beyond six months (two years in case of Infrastructure projects) from the date of completion of the project, as originally envisaged at the time of initial financial closure of the project,

ii. the principal and interest on the loans are regularly serviced during the six month or two year period, as the case may be.

(many of the accounts may have already been classified as sub standard/doubtful and should not be upgraded, unless the aforesaid defaults are cured)

Clause vii. dealing with provisioning requires that on upgrading to standard, the existing provisions must be held and not reversed. The clause reads as under:

Provisioning

“vii. While there will be no change in the extant norms on provisioning for NPAs, banks which are already holding provisions against some of the accounts, which may now be classified as ‘standard’, shall continue to hold the provisions and shall not reverse the same.”

6. SSI advances covered by CGFT(SSI)

Effective Date	Credit facilities extended by the lending institutions w.e.f. June 1, 2000.
Eligibility/Coverage	Credit facilities extended by the lending institution to a single eligible borrower not exceeding Rs.5 lacs (@ not more than 3% over PLR) which at present works out to PLR 12.5% + 3% = 15.5% by way of Term Loan, and/or fund based working capital facilities on or after entering into an agreement with the Trust to the manufacturing SSI units including I.T and Software Industries. Those SSI accounts where neither collateral security nor third party guarantee is taken, are eligible to be covered under this scheme. Credit facilities in respect of which risks are covered by any other guarantee cover/Government guarantee, are not eligible for cover. Credit facilities which have been sanctioned against collateral security and/or third part guarantee are also not covered under the scheme.
Guarantee Cover	75% of the defaulted principal amount in respect of Term Loan and/or outstanding fund based working capital inclusive of interest (when account becomes NPA or as on date of filing of the suit whichever is earlier), subject to maximum of Rs.18.75 lakhs per borrower.
Guarantee Fee	A one time Guarantee Fee @ 2.5% of the credit facility sanctioned (comprising Term Loan and/or fund based working capital facility – such as CC, OD, bills purchased or discounted etc.) shall be paid upfront to the Trust, provided that the lending institution applies for the guarantee cover within a period of 90 days from the date of the first disbursement.
Service Fee	The annual service fee @ 1% per annum on the outstanding amount to the debit of the borrower’s account covered under the scheme as on March 31 of each year is payable within 60 days i.e. on or before May 31 of that year, failing which penal interest @ 4% OBR per annum from 1 st June onwards for the period of delay shall be charged by the Trust.

Consequently, in case of advances in doubtful category, this should not be considered for provision.

7. PRIORITY SECTOR LENDING

(Refer RBI Circular RPCD. CO. Plan. BC. 2 /04.09.01/ 2009-10dated 1-7-2009)

Nature/Type	Dispensation
Agriculture (Direct and Indirect finance):	<i>Direct finance to agriculture</i> shall include short, medium and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such

	as corporates, partnership firms and institutions) up to the limits prescribed <i>Indirect finance to agriculture</i> shall include loans given for agriculture and allied activities as specified
Small Enterprises (Direct and Indirect Finance)	<i>Direct finance</i> to small enterprises shall include all loans given to micro and small (manufacturing) enterprises engaged in manufacture/ production, processing or preservation of goods, and micro and small (service) enterprises engaged in providing or rendering of services, and whose investment in plant and machinery and equipment (original cost excluding land and building and such items as mentioned therein) respectively, does not exceed the prescribed limits The micro and small (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons, and all other service enterprises, <i>Indirect finance</i> to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.
Retail Trade	includes retail traders/private retail traders dealing in essential commodities (fair price shops), and consumer co-operative stores, as defined
Micro Credit	Comprises Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/JLG mechanism or to NBFC/MFI for on-lending up to Rs. 50,000 per borrower.
Education loans	Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions;
Housing loans	Loans up to Rs. 20 lakh to individuals for purchase/construction of dwelling unit per family, (excluding loans granted by banks to their own employees)and loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.

8. **HOUSING FINANCE**

(Reference may be made to the RBI Master Circular on Housing Finance (DBOD. No.DIR. (HSG). BC.08 /08.12.01/2009-10 dated 1-7-2009)

The Circular deals with:**a. Direct Housing Finance**

Such finance covers individuals and groups of individuals, including co- operative societies, where Banks are free to evolve their own guidelines with the Board approval as regards security, margin, age of the dwelling units, repayments etc.

Such finance includes for:

- buying / constructing a second house by a person already owning a house for self occupation,
- buying a house for letting it out due to the borrower's posting outside the headquarters or accommodation provided by the employer,
- buying the tenanted house in which he resides, or
- purchase of a plot intended to be constructed upon, based on self declaration.
- carrying out additions/alterations/repairs to an already financed house, as supplementary finance, including on the basis of a second/pari passu charge where others have financed the dwelling unit.

b. Indirect Housing Finance

Such finance comprises term loans to finance institutions, housing boards, public housing agencies primarily for augmenting supply of serviced land and constructed units, on the basis of time-bound utilization (houses to be constructed within three years).

Lending can be to Housing Intermediary Agencies (Housing Finance Institutions, Housing Boards and private builders)

c. Housing Loans under the Priority Sector

Loans up to Rs. 20 lakh to individuals for purchase/construction of dwelling unit per family, (excluding loans granted by banks to their own employees)and loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas

d. R.B.I. Refinance – No finance is eligible for refinance from RBI.**e. Construction activities not eligible for Bank Credit****f. Reporting****g. Opening of Specialized Housing Finance branches**

h. Home Loan Account Scheme (HLAS) for National Housing Bank**i. Risk Weight on Housing Finance****j. Terms and conditions for Banks Investments in Mortgage backed securities (MBS)****k. other important restrictions:**

The Monitoring Committee constituted by the Hon'ble High Court of Delhi regarding Unauthorised Construction, Misuse of Properties and Encroachment on Public Land, has issued the following directions for immediate compliance by the banks/ Financial Institutions.

Housing Loan for building construction

- i) In cases where the applicant owns a plot/land and approaches the banks/FIs for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility must be obtained by the Banks/FIs before sanctioning the home loan.
- ii) An affidavit-cum-undertaking must be obtained from the person applying for such credit facility that he shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executant to obtain completion certificate within 3 months of completion of construction, failing which the bank shall have the power and the authority to recall the entire loan with interest, costs and other usual bank charges.
- iii) An Architect appointed by the bank must also certify at various stages of construction of building that the construction of the building is strictly as per sanctioned plan and shall also certify at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

Housing Loan for purchase of constructed property/ built up property

- i) In cases where the applicant approaches the bank/FIs for a credit facility to purchase the built up house/flat, it should be mandatory for him to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and/or building bye-laws and as far as possible has a completion certificate also.
- ii) An Architect appointed by the bank must also certify before disbursement of the loan that the built up property is strictly as per sanctioned plan and/or building bye-laws.

Unauthorised colonies

No loan should be given in respect of properties:

- which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.
- meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

9. LIMITATIONS / RESTRICTIONS ON ADVANCES

RBI, vide its Master Circular _DBOD. BC.13/13.03.00/2009-10 dated July 1, 2009, has imposed certain statutory/regulatory and other restrictions on advances, and it is imperative that the Bank's policy as well the laid down forms for making loans/advances cover the statutory and regulatory restrictions, inter-alia as regards:

Advances against bank's Own Shares

In terms of Section 20(1) of the Banking Regulation Act, 1949, a bank cannot grant any loans and advances on the security of its own shares.

Advances to bank's Directors

Section 20(1) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the Directors and the firms in which they hold substantial interest.

Advances to bank's Directors

Section 20(1) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest.

Banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a Government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

For the above purpose, the term 'loans and advances' shall not include the following:

- (a) *loans or advances against Government securities, life insurance policies or fixed deposit;*
- (b) *loans or advances to the Agricultural Finance Corporation Ltd;*
- (c) *such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of the banking company) in his capacity as an employee of that banking company and on the same terms and conditions as would have been applicable to him as an employee of that banking company*
- (d) *such loans or advances as are granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking company immediately prior to his appointment as Chairman/ Managing Director/CEO, or a whole-time director for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and Festival Advance, with the prior approval of the RBI*
- (f) *call loans made by banking companies to one another;*
- (g) *facilities like bills purchased/discounted (whether documentary or clean and sight or usance and whether*

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E III

- on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/ co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, (h) line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd.(NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; (i) a normal credit limit granted under credit card facility extending non-fund based facilities such as guarantees, L/Cs, acceptance on behalf of directors and the companies/firms in which the directors are interested subject to certain safeguards so that the bank is not deemed to be a party to the violation of the provisions of Section 20 of the Banking Reg. Act, 1949.

Restrictions on Power to Remit Debts

Any remission made in contravention of the provisions of Section 20A of the Banking Regulation Act, 1949 to Remit Debts shall be void and have no effect.

Notwithstanding anything to the contrary contained in Section 293 of the Companies Act, 1956, a banking company shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by any of its directors, or any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or any individual, if any of its directors is his partner or guarantor.

Restrictions on Holding Shares in Companies

Bank should not hold shares

- in any company except as provided in sub-section (1) whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less[Section 19(2)]
- whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the bank is in any manner concerned or interested [Section 19(3)]

Restrictions on Credit to Companies for Buy-back of their Securities

The banks should not provide loans to companies for buy-back of shares/securities.

REGULATORY RESTRICTIONS

- **Granting loans and advances to relatives of Directors**
- **Lending to directors and their relatives on reciprocal basis**

Regulatory Restrictions

Lending to directors and their relatives (as defined) directly or on reciprocal basis

Unless sanctioned by the Board of Directors/Management Committee, and subject to disclosure of the interest by the director concerned and non participation in the resolution, banks should not grant **loans and advances**# or awarding of contracts aggregating Rs. 25 lakhs and above to -

- (a) directors (including the Chairman/Managing Director) of other banks *;
- (b) any firm in which any of the directors of other banks * is interested as a partner or guarantor; and
- (c) any company in which any of the directors of other banks * holds substantial interest or is interested as a director or as a guarantor.
- (d) any relatives of their own Chairmen/Managing Directors or other Directors;
- (e) any relatives of the Chairman/Managing Director or other directors of other banks *;
- (f) any firm in which any of the relatives as mentioned in (a) & (b) above is interested as a partner or guarantor; and
- (g) any company in which any of the relatives as mentioned in (d) & (e) above hold **substantial interest**** or is interested as a director or as a guarantor.

* includes directors of Scheduled Co-operative Banks, subsidiaries/trustees of mutual funds/venture capital funds.

excludes loans or advances against:

- Government securities
- Life insurance policies
- Fixed or other deposits
- Stocks and shares
- Temporary overdrafts for small amounts, i.e. up to Rs. 25,000/-
- Casual purchase of cheques up to Rs. 5,000 at a time
- Housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to employees.

** 'substantial interest' as defined in Section 5 (ne) of the Banking Regulation Act, 1949.

- (i) Every borrower should furnish a declaration to the bank to the effect that
 - a) (where the borrower is an individual) he is not a director or specified near relation of director of a banking company;
 - b) (where the borrower is a partnership firm) none of the partners is a director or specified near relation of a director of a banking company; and
 - c) (where the borrower is a joint stock company) none of its directors, is a director or specified near relation of a director of a banking company.
- (ii) The declaration should also give details of the relationship of the borrower to the director of the bank.

- **Restrictions on Grant of Loans & Advances to Officers/ Relatives of Senior Officers (as defined) of Banks and Consortium Arrangements**

- (i) Loans & advances to officers of the bank
- (ii) Loans and advances and award of contracts to relatives of senior officers of the bank
Credit facilities sanctioned to senior officers of the financing bank should be reported to the Board.

- **Restrictions on Grant of Financial Assistance to Industries producing/ Consuming Ozone Depleting Substances (ODS)**

- **Restrictions on Advances against Sensitive Commodities under Selective Credit Control (SCC) Issue of Directives**

- (i) With a view to preventing speculative holding of essential commodities with the help of bank credit and the resultant rise in their prices, in exercise of powers conferred by Section 21 & 35A of the Banking Regulation Act, 1949, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest to do so, issues, from time to time, directives to all commercial banks, stipulating specific restrictions on bank advances against specified sensitive commodities.
- (ii) The commodities, generally treated as sensitive commodities are the following:
 - (a) food grains i.e. cereals and pulses,
 - (b) selected major oil seeds indigenously grown, viz. groundnut, rapeseed/mustard, cottonseed, linseed and castorseed, oils thereof, vanaspati and all imported oils and vegetable oils,
 - (c) raw cotton and kapas,
 - (d) sugar/gur/khandsari,
 - (e) cotton textiles which include cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres and partly out of cotton yarn and partly out of man-made fibres.

Valuation of sugar stocks

- (a) The unreleased stocks of the levy sugar charged to banks as security by the sugar mills shall be valued at levy price fixed by Government.
- (b) The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the bank as security by sugar mills, shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

- **Restrictions on payment of commission to staff members/officers**

- **Loans and Advances against Shares, Debentures and Bonds**

The restrictions, *inter alia*, on loans and advances against shares and Debentures, are:-

- No loans to be granted against partly paid shares.
- No loans to be granted to partnership/proprietorship concerns against the primary security of shares and debentures.
- Banks and their subsidiaries should not undertake financing of 'Badla' transactions.

(Refer Master Circular on 'Bank Finance Against Shares and Debentures' dated August 28, 1998 Master Circular dated July 1, 2009 on 'Exposure Norms' and the Circular on Financing of acquisition of equity in overseas companies dated June 7, 2005).

- **Advances against Money Market Mutual Funds**

All the guidelines issued by the Reserve Bank of India on Money Market Mutual Funds (MMMF) have been withdrawn and the banks are to be guided by the SEBI Regulations in this regard. However the banks/ FIs which are desirous of setting up MMMFs would have to take necessary clearance from the RBI for undertaking this additional activity before approaching SEBI for registration.

- **Advances against Fixed Deposit Receipts (FDRs) Issued by Other Banks**

- **Loans against Certificate of Deposits (CDs) except in respect of CDs held by mutual funds** (not permitted in the earlier year) (*now to be treated as part of banks' capital market exposure*)

- **Bank Finance to Non-Banking Financial Companies (NBFCs)**

(Refer Master Circular on Bank Finance to Non-Banking Financial Companies (NBFCs) dated July 1, 2009)

- **Financing Infrastructure/housing projects**

i. Housing Finance -Refer the Master Circular on Housing Finance dated July 1, 2009

ii. Financing of Infrastructure Projects

Any credit facility (by way of working capital finance, term loan, project loan, subscription to bonds and debentures/ preference shares/ equity shares acquired as a part of the project finance package which is treated as "deemed advance" and any other form of funded or non-funded facility) to a **borrower company** on the basis of technically feasible, financially viable and bankable projects undertaken by both public sector and private sector undertakings engaged in:

- developing or
- operating and maintaining, or

- developing, operating and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature :
 - i. a road, including toll road, a bridge or a rail system;
 - ii. a highway project including other activities being an integral part of the highway project;
 - iii. a port, airport, inland waterway or inland port;
 - iv. a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
 - v. telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;
 - vi. an industrial park or special economic zone ;
 - vii. generation or generation and distribution of power;
 - viii. transmission or distribution of power by laying a network of new transmission or distribution lines;
 - ix. construction relating to projects involving agro-processing and supply of inputs to agriculture;
 - x. construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
 - xi. construction of educational institutions and hospitals;
 - xii. laying down and/or maintenance of gas, crude oil and petroleum pipelines.
 - xiii. **any other infrastructure facility of similar nature.**

Types of Financing by Banks

Take-out Financing

Including liquidity support under arrangement with IDFC/ other financial institutions. Refer also to instructions contained in Circular No. DBOD. BP. BC. 144/ 21.04.048/ 2000 dated February 29, 2000.

Inter-institutional Guarantees

These can be issued to other lending institutions for infrastructure projects, provided the guarantor bank takes a funded share in the project at least to the extent of 5 per cent of the project cost .

Financing promoter's equity

The bank finance (**restricted to 50%** of the finance required for acquiring the promoter's stake in the company being acquired), would be only for acquisition of shares of existing companies (with a satisfactory net worth and not being a defaulter with the bank), providing infrastructure facilities which can be in respect of companies where the existing foreign promoters (and/ or domestic joint promoters) voluntarily propose to disinvest their majority shares in compliance with SEBI guidelines, where applicable. The shares of the borrower company / company being acquired may be accepted as additional security and not as primary security. The security charged to the banks should be marketable.

The tenor of the bank loans may not be longer than seven years. However, the Boards of banks can make an exception in specific cases, where necessary, for financial viability of the project.

The bank financing acquisition of equity shares by promoters should be within the regulatory ceiling of **40 per cent** of their net worth as on March 31 of the previous year for the aggregate exposure of the banks to the capital markets in all forms (both fund based and non-fund based).

Adherence to Prudential requirements/ credit exposure limits

Asset-Liability Management to take care of any mismatches, due to long term commitments

• **Issue of Bank Guarantees in favour of Financial Institutions**

Banks may issue guarantees based on a well laid down policy, inter alia covering Prudential limits, linked to bank's Tier I capital, up to which guarantees favouring other banks/FIs/other lending agencies may be issued., Nature and extent of security and margins, Delegation of powers, Reporting systems, Periodical reviews.

The guarantee shall be extended only in respect of borrower constituents and to enable them to avail of additional credit facility from other banks/FIs/lending agencies and the the guaranteeing bank shall assume a funded exposure of at least 10% of the exposure guaranteed.

Banks should not extend guarantees or letters of comfort in favour of overseas lenders including those assignable to overseas lenders, except for the relaxations permitted under FEMA.

Lending bank should not grant co-acceptance/guarantee facilities under Buyers Lines of Credit Schemes introduced by IDBI, SIDBI, Exim Bank, Power Finance Corporation (PFC) or any other financial institution, unless specifically permitted by the RBI.

• **Discounting/Rediscounting of Bills by Banks**

Bills covering purchase of raw material/inventory for production purpose and sale of goods should be discounted by banks. Bills covering payments of electricity charges, customs duty, hire-purchase/lease rental instalments, sale of securities and other type of financial accommodation should not be discounted by banks.

Accommodation bills should never be discounted by the banks.

Bills rediscount should be restricted to usance bills held by other banks.

• **Advances against Gold/Silver Bullion**

i) Banks should not grant any advance against gold bullion.

ii) Banks should desist from granting advances to the silver bullion dealers which are likely to be utilised for speculative purposes.

• **Loans and advances to Small Scale Industries**

SSI units having working capital limits of up to Rs 5 crore from the banking system are to be provided working capital finance computed on the basis of 20 percent of their projected annual

turnover. The banks should adopt the simplified procedure in respect of all SSI units (new as well as existing).

- **Loan system for delivery of bank credit**

(working capital credit limits of Rs. 10 crore and above from the banking system, subject to identification of such business activities, which may be exempted from the loan system of delivery).

The loan component should normally be 80 percent allowing Banks, with flexibility to change the composition of working capital based on appropriately pricing each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management. Smaller loans may be encouraged to follow this system.

- **Lending under Consortium Arrangement/Multiple Banking Arrangement**

At the time of granting facilities, banks may obtain declaration from the borrowers about the credit facilities already enjoyed by them from other banks in the format prescribed (Ref RBI circular Nos. DBOD No. BP.BC.46 and 94/08.12.001/2008-09 dated 19-9-2008 and 8-12-2008 respectively).

In the case of existing lenders, all the banks may seek a declaration from their existing borrowers availing sanctioned limits of Rs.5.00 crore and above or wherever, it is in their knowledge that their borrowers are availing credit facilities from other banks, and introduce a system of exchange of information with other banks as per the prescribed format at least at Quarterly intervals.

Bank should obtain regular certification by a professional, preferably a Company Secretary, Chartered Accountant or Cost Accountant, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in Annex III of RBI circulars referred to above and DBOD. No. BP. BC. 110/08.12.001/2008-09 dated February 10, 2009..

- **Working Capital Finance to Information Technology and Software Industry**
 - **Guidelines for bank finance for PSU disinvestments of Government of India**
 - **Grant of Loans for acquisition of Kisan Vikas Patras (KVPs)**
 - **7% Savings Bonds 2002, 6.5% Savings Bonds 2003 (Non-taxable) & 8% Savings (Taxable) Bonds 2003-Collateral facility**
 - **Guidelines on Settlement of Non Performing Assets- Obtaining Consent Decree from Court**
- Banks are to invariably ensure that once a case is filed before a Court / DRT / BIFR, any settlement arrived at with the borrower is subject to obtaining a consent decree from the Court / DRT / BIFR concerned.
- **Project Finance Portfolio of Banks**
 - **Bridge Loans against receivables from Government**

EXPOSURE NORMS FOR CREDIT/INVESTMENTS

Attention is drawn to the Master Circular – Exposure Norms (DBOD No. Dir. BC.15/13.03.00/ 2009-10 dated 1-7-2009), wherein as a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the Reserve Bank of India has advised the banks to fix limits on their exposure to specific industry or sectors and has prescribed regulatory limits on banks' exposure to individual and group borrowers in India. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against / investments in shares, debentures and bonds. This circular deals with:

Para Matter dealt with

- 2.1 Credit Exposures to Individual / Group Borrowers
- 2.2 Credit Exposure to Industry or Certain Sectors
- 2.3 Banks' Exposure to Capital Market – Rationalisation of Norms
- 2.4 Financing of equities and investments in shares
- 2.5 Risk Management and Internal Control System
- 2.6 Valuation and Disclosure
- 2.7 Cross holding of capital among banks / financial institutions
- 2.8 Banks' Exposure to Commodity Markets – Margin Requirements
- 2.9 Limits on exposure to unsecured guarantees and unsecured advances
- 2.10 'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES ISSUED BY RESERVE BANK OF INDIA@
(Refer RBI Circular DBS CO PPBC 11/11.01.005/2001-2002 dt.17.4.2002)

The following paragraphs list the matters which the branch auditors of banks are expected to comment upon in their Long Form Audit Reports. The appendix to this questionnaire contains questions which are relevant to specialised branches dealing in foreign exchange transactions, recovery of non-performing assets, clearing house operations and branches having very large advances. Auditors of foreign branches of Indian Banks should also furnish this report. In the case of such branches, reference to the Reserve Bank of India should be construed to include the Reserve Bank of India, as well as the relevant regulating authority of the foreign country where the branch is located.

Where any of the comments made by the auditors in their LFAR is adverse, they should consider whether a qualification in their main report is necessary. It should not, however, be assumed that every adverse comment in the LFAR would necessarily result in a qualification in the main report. In deciding whether a qualification in the main report is necessary, the auditors should use their judgement in the facts and circumstances of each case. Where the auditors have any reservation or adverse remarks with regard to any of the matters to be dealt with in their Long Form Audit Reports, they may give the reasons for the same. Also, where relevant, instances of situations giving rise to their reservations or adverse remarks may also be given.

1. ASSETS

1. Cash

- a) Does the branch generally carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank? Whether excess balances have been reported to the controlling authorities of the bank?
- b) Does the branch hold adequate insurance cover for cash-on-hand and cash-in-transit?
- c) Is cash maintained in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?
- d) Have the cash balances at the branch been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?

2. Balances with Reserve Bank of India, State Bank of India and Other Banks

- a) Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.
- b) Your observations on the reconciliation statements may be reported in the following manner:
 - i) Cash transactions remaining unresponded (give details);
 - ii) Revenue items requiring adjustments/write-off (give details);
 - iii) Old outstanding balances remaining unexplained/unadjusted. Give details for:
 - Outstanding between six months and one year; and
 - One year and above
- c) In case any item deserves special attention of the management, the same may be reported.

1. @ This Long Form Report should be addressed by the branch auditors to the Chairman of the bank concerned with a copy thereof to the Central Statutory Auditors.

2. There is no prescribed format of reporting, so long as the questionnaire is responded to, preferably in a sequential order

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

3. Money at Call and Short Notice

Has the Branch kept money-at-call and short notice during the year? If so, whether instructions/ guidelines, if any, laid down by the Controlling Authorities of the Bank have been complied with?

4. Investments

A) For Branches in India

- a) Are there any investments held by branches on behalf of Head Office/Other offices of the bank? If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?
- b) Whether any amounts received as income on such investments have been reported to the Head Office?
- c) In respect of investments held by branches on behalf of Head Office/other offices of the bank whether any income is accrued/ received and recognized as income of the branch contrary to the instructions of the controlling authorities of the bank?
- d) Whether there are any matured or overdue investments which have not been en-cashed? If so, give details?
- e) Whether the Guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with.
- f) Whether the Guidelines of the Reserve Bank of India regarding Valuation of Investments have been complied with.

B) For Branches outside India

- a) In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions/ guidelines in this behalf issued by the controlling authorities of the bank?
- b) Have the investments held by the branch whether on its own account or on behalf of the Head Office/other branches been made available for physical verification? Where the investments are not in the possession of the branch, whether evidences with regard to their physical verification have been produced?
- c) Is the mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located whichever are more stringent?
- d) Whether there are any matured or overdue investments which have not been en-cashed? If so, give details?

5. Advances

(The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. In respect of large advances, all cases of major adverse features, deficiencies, etc. should be reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks. For this purposes, large advances are those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs. 2 crore, whichever is less.)

a) Credit Appraisal

In your opinion, has the branch generally complied with the procedures/ instructions of the controlling authorities of the bank regarding loan applications, preparation of proposals for grant/ renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof.

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

b) Sanctioning/ Disbursement

- i) In the cases examined by you, have you come across instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? Are such cases promptly reported to higher authorities?
- ii) In the cases examined by you, have you come across instances where advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.

c) Documentation

- i) In the cases examined by you, have you come across instances of credit facilities released by the branch without execution of all the necessary documents ? If so, give details of such cases.
- ii) In respect of advances examined by you, have you come across instances of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees, etc. ? If so, give details of such cases.
- iii) Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the controlling authorities of the bank.

d) Review/ Monitoring/ Supervision

- i) Is the procedure laid down by the Controlling authorities of the bank, for periodic review of advances including periodic balance confirmation/ acknowledgment of debts, followed by the Branch? Provide analysis of the accounts overdue for review/ renewal
 - between 6 months and 1 year, and
 - over 1 year
- ii) Are the stock/ book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?
- iii) Whether there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?
- iv) Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakhs where the Branch has not obtained the accounts of borrowers, duly audited under the RBI guidelines with regard to compulsory audit or under any other statute.
- v) Has the inspection or physical verification of securities charged to the Bank been carried out by the branch as per the procedure laid down by the controlling authorities of the bank?
- vi) In respect of advances examined by you, have you come across cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawn beyond limits, inadequate insurance coverage, etc.?
- vii) In respect of leasing finance activities, has the Branch complied with the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance, etc? Has the Branch complied with the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities?
- viii) Are credit card dues recovered promptly?
- ix) Has the branch identified and classified advances into standard/ sub-standard/doubtful/loss assets in line with the norms prescribed by the Reserve Bank of India (The auditor may refer to the relevant H. O. Instructions for identification of NPAs and Classification of Advances).
- x) Where the auditor disagrees with the branch classification of advances into standard/substandard/doubtful/loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated/ suggested in the Memorandum of Changes.

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

- xi) Have you come across cases where the relevant Controlling Authority of the Bank has authorised legal action for recovery of advances or recalling of advances but no such action was taken by the branch? If so, give details of such cases.

xii) Have all non-performing advances been promptly reported to the relevant Controlling Authority of the bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.

xiii) Have appropriate claims for DICGC and Export Credit Guarantee/ Insurance and subsidies, if any, been duly lodged and settled? The status of pending claims giving year wise break-up of number and amounts involved should be given in the following format.

Particulars	Number	Amount(Rs.)
A Claims as at the beginning of the year (Give year-wise details) Further claims lodged during the year		
Total A		
B Amounts representing:		
a) Claims accepted/ settled (give year-wise details)		
b) Claims rejected (give year-wise details)		
Total B		
Balance as at the year-end (give year-wise details)		
A-B		

xiii) In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the fixed assets charged to the bank, once in three years, unless the circumstances warrant a shorter duration?

xiv) In the cases examined by you has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/ settlement and write-off cases? Details of the cases of compromise/ settlement and write-off cases involving write-offs/ waivers in excess of Rs.50 lakhs may be given.

xv) List the major deficiencies in credit review, monitoring and supervision.

e) **Guarantees and Letters of Credit**

i) Details of outstanding amounts of guarantees invoked and funded by the Branch at the end of the year may be obtained from the management and reported in the following format:

a) Guarantees invoked, paid but not adjusted

Sr.No.	Date of invocation	Name of the party	Name of the beneficiary	Amount	Date of Recovery	Remarks
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b) Guarantees invoked but not paid

Sr.No.	Date of invocation	Name of the party	Name of the beneficiary	Amount	Date of Recovery	Remarks
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QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

- ii) Details of the outstanding amounts of letters of credit and co-acceptances funded by the Branch at the end of the year may be obtained from the management and reported in the following format.

Sr.No.	Date of funding	Name of the Party	Nature (LC/ co- acceptance, etc.)	Amount	Date of Recovery	Remarks
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6. Other Assets

a) Stationery and Stamps

- i) Does the system of the bank ensure adequate internal control over issue and custody of stationery comprising security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch?
- ii) Have you come across cases of missing/ lost items of such stationery?

b) Suspense Accounts/ Sundry Assets

- i) Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained. Does your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/write-off? If so, give details in the following format:

Year	Amount(Rs.)	Remarks

- ii) Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.

II. LIABILITIES

1. Deposits

- i) Have the controlling authorities of the bank laid down any guidelines with respect to conduct and operations of Inoperative Accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.
- ii) After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year-end? If so, obtain the clarification from the management and give your comments thereon.
- iii) Are there any overdue/ matured term deposits at the end of the year? If so, amounts thereof should be indicated.

2. Other Liabilities

Bill Payable, Sundry Deposits, etc.

- i) The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained from the Branch and reported under appropriate heads. Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details in the following format:

Year	No.of Items	Amount(Rs.)	Remarks

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

- ii) Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, report their nature and the amounts involved.
- 3. **Contingent Liabilities**
List of major items of the contingent liabilities (other than constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc) not acknowledged by the Branch?

III **PROFIT AND LOSS ACCOUNT**

- 1. Whether the branch has a system to compute discrepancies in interest/ discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the controlling authorities of the bank? Has the test checking of interest revealed excess/ short credit of a material amount? If so, give details thereof.
- 2. Has the branch complied with the Income Recognition norms prescribed by RBI? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets).
- 3. Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid-down in this regard by the controlling authorities of the bank? Has the test check of interest on deposits revealed any excess/ short debit of material amount ? If so, give details thereof.
- 4. Does the bank have a system of estimating and providing interest accrued on overdue/ matured term deposits ?
- 5. Are there any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch ? If so, the same may be reported upon. For this purpose, an appropriate statement may be obtained from the branch management explaining the divergent trends in major items of income and expenditure.

IV **GENERAL**

1. **Books and Records**

- a) In case any books of account are maintained manually, does general scrutiny thereof indicates whether they have been properly maintained, with balances duly inked out and authenticated by the authorised signatories?
- b) In respect of computerized branches:
 - o Whether hard copies of accounts are printed regularly?
 - o Indicate the extent of computerization and the areas of operation covered.
 - o Are the access and data security measures and other internal controls adequate?
 - o Whether regular back-ups of accounts and off-site storage are maintained as per the guidelines of the controlling authorities of the bank?
 - o Whether adequate contingency and disaster recovery plans are in place for loss/ encryption of data?
 - o Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch?

2. **Reconciliation of Control and Subsidiary Records**

Have the figures, as at the year end, in the control and subsidiary records been reconciled ? If not, the last date upto which such figures have been reconciled should be given under the respective heads, preferably in the following format:

Account	Date	General Ledger Balance(Rs.)	Subsidiary Balance(Rs.)	Last Date on which balanced

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)**3. Inter Branch Accounts**

- i) Does the branch forward on a daily basis to a designated cell/ Head Office, a statement of debit/credit transactions in relation to other branches ?
- ii) Does a check of the balance in the Head Office Account as shown in the said statement during and as at the year-end reveal that the same is in agreement with the Head Office Account in the general ledger?
- iii) Are there any outstanding debits in the Head Office Account in respect of inter-branch transactions?
- iv) Does the branch expeditiously comply with / respond to the communications from the designated cell/ Head Office as regards unmatched transactions ? As at the year-end are there any unresponded/ uncomplained queries or communications? If so, give details?
- v) Have you come across items of double responses in the Head Office Account? If so, give details.
- vi) Are there any old/large outstanding transaction/ entries at debits as at year-end which remain unexplained in the accounts relatable to inter-branch adjustments?

4. Audits/Inspections

- i) Is the branch covered by concurrent audit or any other audit/ inspection during the year?
- ii) In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors or internal auditors, or in the special audit report or in the Inspection Report of the Reserve Bank of India? State the various adverse features persisting in the branch, though brought out in these audit/ inspection reports.

5. Frauds

Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimise the possibilities of their occurrence.

6. Miscellaneous

- i) Does the examination of the accounts indicate possible window dressing ?
- ii) Does the branch maintain records of all the fixed assets acquired and held by it irrespective of whether the values thereof or depreciation thereon have been centralized? Where documents of title in relation to branch or other branches are available at the branch, whether the same have been verified.
- iii) Are there any other matters, which you as a branch auditor would like to bring to the notice of the management or the Central Statutory Auditors?

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

APPENDIX

QUESTIONNAIRE APPLICABLE TO SPECIALISED BRANCHES

A. For Branches dealing in Foreign Exchange Transactions

1. Are there any material adverse features pointed out in the reports of concurrent auditors, internal auditors and / or the Reserve Bank of India's inspection report which continue to persist in relation to NRE/ NRO/ NRNR/ FCNR-B/EEFC/ RFC and other similar deposit accounts . If so, furnish the particulars of such adverse features.
2. Whether the Branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to the following in relation to the foreign exchange. If not, state the irregularities:
 - a) deposits
 - b) advances
 - c) export bills
 - d) bills for collection
 - e) dealing room operations (where a branch has one)
 - f) any other area
3. Obtain a list of all Nostro Accounts maintained/ operated by the Branch from the branch management.
 - a) Are the Nostro Accounts regularly operated ?
 - b) Are periodic balance confirmations obtained from all concerned overseas branches/ correspondents ?
 - c) Are these accounts duly reconciled periodically? Your observations on the reconciliation may be reported.
4. Does the Branch follow the prescribed procedures in relation to maintenance of Vostro Accounts?

B. For branches dealing in very large advances such as corporate banking branches and industrial finance branches or branches with advances in excess of Rs.100 crores.

1. In respect of borrowers with outstanding of Rs.2.00 crore and above, the information in the enclosed format should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and which might need the attention of the management/ Central Statutory Auditors should be appended to the Long Form Audit Report.
2. What, in your opinion, are the major shortcomings in credit appraisal, monitoring, etc.?
3. List the accounts (with outstandings in excess of Rs.1.00 crore), which have either been downgraded or upgraded with regard to their classification as Non Performing Asset or Standard Asset during the year and the reasons therefore.

C. For branches dealing in recovery of Non Performing Assets such as Asset Recovery Branches

1. In respect of borrowers with outstanding of Rs.2.00 crore and above, the information in the enclosed format should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and which might need the attention of the management/ Central Statutory Auditors should be appended to the Long Form Audit Report.

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

2. List the accounts (with outstandings in excess of Rs.2.00 crores), which have been upgraded from Non Performing to Standard during the year and the reasons therefore.

3. Whether the Branch has a system of updating periodically, the information relating to the valuation of security charged to the bank?

4. Age-wise analysis of the recovery suits filed and pending may be furnished.

5. Is the Branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Also list the time barred decrees, If any, and reasons therefore.

6. List the recoveries and their appropriation against the interest and the principal and the accounts settled/ written off/ closed during the year.

7. List the new borrower accounts transferred to the Branch during the year. Have all the relevant documents and records relating to these borrower accounts been transferred to the Branch? Has the Branch obtained confirmation that all the accounts of the borrower (including non-fund based exposures and deposits pending adjustment/ margin deposits) been transferred to the Branch ?
- D. For branches dealing in Clearing House Operations, normally referred to as Service Branches

1. Does the branch have a system of periodic review of the outstanding entries in clearing adjustments accounts? In your view has the system generally been complied with?

2. Whether review of the clearing adjustments accounts (inwards/ outwards) reveals any old/large/unusual outstanding entries which remain unexplained ? Give year-wise break-up of outstanding in number and value:

Inward Clearing		
	Number	Value
Normal Clearing		
High Value Clearing		
Inter- Branch Clearing		
National Clearing		
Returned/Dishonoured Clearing		

Outward Clearing		
	Number	Value
Normal Clearing		
High Value Clearing		
Inter- Branch Clearing		
National Clearing		
Returned/Dishonoured Clearing		

3. Has the Branch strictly followed the guidelines of the controlling authority of the bank with respect to operations related to clearing transactions? Comment on the systems and procedures followed by the Branch in this regard.

BANK BRANCH AUDIT

F

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

**ANNEXURE TO THE Long Form Audit Report
(FOR LARGE/IRREGULAR/CRITICAL ADVANCE ACCOUNTS)**

(to be obtained from the branch management by the Branch Auditors of branches dealing in large advances/ asset recovery branches)

- 1. Name of the Borrower
- 2. Address
- 3. Constitution
- 4. Nature of business/activity
- 5. Other units in the same group
- 6. Total exposure of the branch to the Group
 - Fund Based (Rs.in Lakhs)
 - Non-Fund Based (Rs.in Lakhs)
- 7. Name of Proprietor/ Partners/ Directors
- 8. Name of the Chief Executive, if any
- 9. Asset Classification by the Branch
 - a) as on the date of current audit
 - b) as on the date of previous Balance Sheet
- 10. Asset Classification by the Branch Auditor
 - a) as on the date of current audit
 - b) as on the date of previous Balance Sheet
- 11. Are there any adverse features pointed out in relation to asset classification by the Reserve Bank of India Inspection or any other audit.
- 12. Date on which the asset was first classified as NPA (where applicable)
- 13. **Facilities sanctioned:**

Date of Sanction	Nature of facilities	Limit (Rs.in Lakhs)	Prime Security	Collateral Security	Margin%	Balance outstanding at the year-end	
						Current year	Previous year
Provision Made: Rs.____ Lakhs							

- 14 Whether the advance is a consortium advance or an advance made on multiple- bank basis
- 15. If Consortium,
 - a) names of participating banks with their respective shares
 - b) name of the Lead Bank in Consortium
- 16. If on multiple banking basis, names of other banks and evidence thereof
- 17. Has the Branch classified the advance under the Credit Rating norms in accordance with the guidelines of the controlling authorities of the Bank
- 18. a) Details of verification of primary security and evidence thereof;
b) Details of valuation and evidence thereof

Date verified	Nature of Security	Value	Valued by
Insured for Rs._____ lakhs (expiring on_____)			

BANK BRANCH AUDIT

F

QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

19. a) Details of verification of collateral security and evidence there of
b) Details of valuation and evidence thereof

Date verified	Nature of Security	Value	Valued by
Insured for Rs. _____ lakhs (expiring on _____)			

20. Give details of the Guarantee in respect of the advance
a) Central Government Guarantee;
b) State Government Guarantee;
c) Bank Guarantee or Financial Institution Guarantee;
d) Other Guarantee
Provide the date and value of the Guarantee in respect of the above.

21. Compliance with the terms and conditions of the sanction

Terms and Conditions	Compliance
i) Primary Security a) Charge on primary security b) Mortgage of fixed assets c) Registration of charges with Registrar of Companies d) Insurance with date of validity of Policy	
ii) Collateral Security a) Charge on collateral security b) Mortgage of fixed assets c) Registration of charges with Registrar of Companies d) Insurance with date of validity of Policy	
iii) Guarantees – Existence and execution of valid guarantees	
iv) Asset coverage to the branch based upon the arrangement (i.e , consortium or multiple-bank basis)	
v) Others: a) Submission of Stock Statements/ Quarterly Information Statements and other Information Statements. b) Last inspection of the unit by the Branch officials: Give the date and details of errors/omissions noticed c) In case of consortium advances, whether copies of documents executed by the company favouring the consortium are available d) Any other area of non-compliance with the terms and conditions of sanction.	

BANK BRANCH AUDIT

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QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

22. Key financial indicators for the last two years and projections for the Current year (Rs.in lakhs)

Indicators	Audited ended March _____ year 31 st	Audited ended March _____ year 31 st	Estimates for ended March _____ year 31 st
Turnover			
Increase in turnover % over previous year			
Profit before depreciation, interest and tax Less: Interest Net Cash Profit before tax Less: Depreciation Less: Tax Net Profit after Depreciation and Tax			
Net Profit to Turnover Ratio			
Capital (Paid-up)			
Reserves			
Net Worth			
Turnover to Capital Employed Ratio (The term capital employed means the sum of Net Worth and Long Term Liabilities)			
Current Ratio			
Stock Turnover Ratio			
Total Outstanding Liabilities/ total Net Worth Ratio			
In case of listed companies, Market value of shares a) High; b) Low; and c) Closing			
Earnings Per Share			
Whether the accounts were audited? If yes, upto what date; and are there any audit qualifications			

BANK BRANCH AUDIT

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QUESTIONNAIRE IN CONNECTION WITH THE LONG FORM AUDIT REPORT IN CASE OF BANK BRANCHES (Contd.)

23. Observations on the operations in the account:

		Excess over drawing power	Excess over limit
1	No of occasions on which the balance exceeded the drawing power/ sanctioned limit (give details)		
	Reasons for excess drawings, if any		
	Whether excess drawings were reported to the Controlling Authority and approved		

		Debit Summation (Rs.in Lakhs)	Credit Summation (Rs.in Lakhs)
2.	Total summation in the account during the year Less : Interest Balance		

24. Adverse observations in other audit reports/ Inspection Reports/ Concurrent Auditor's Report/ Internal Audit Report/ Stock Audit Report/ Special Audit Report or Reserve Bank of India Inspection with regard to:
i)Documentation;
ii)Operations;
iii)Security/Guarantee; and
Iv)Others
25. Branch Manager's overview of the account and its operation.
26. a)In case the borrower has been identified/ classified as Non-performing Asset during the year, whether any unrealised income including income accrued in the previous year has been accounted as income, contrary to the Income Recognition Norms.
- b)Whether any action has been initiated towards recovery in respect of accounts identified/ classified as Non-performing Assets.

Date:

**Signature & Seal
Of Branch In-charge**

- AS 1** Preface to the Accounting Standards
- AS 2** Valuation of Inventories
- AS 3** Cash Flow Statements
- AS 4** Contingencies and Events Occurring after the Balance Sheet Date
- AS 5** Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
- AS 6** Depreciation Accounting
- AS 7** Construction Contracts (revised 2002)
- AS 8** Accounting for Research and Development
- AS 9** Revenue Recognition
- AS 10** Accounting for Fixed Assets
- AS 11** The Effects of Changes in Foreign Exchange Rates (revised 2003),
- AS 12** Accounting for Government Grants
- AS 13** Accounting for Investments
- AS 14** Accounting for Amalgamations
- AS 15** Employee Benefits (revised 2005)
Limited Revision to Accounting Standard (AS) 15, Employee Benefits (revised 2005)
- AS 16** Borrowing Costs
- AS 17** Segment Reporting
- AS 18** Related Party Disclosures
- AS 19** Leases
- AS 20** Earnings Per Share
- AS 21** Consolidated Financial Statements
- AS 22** Accounting for Taxes on Income.
- AS 23** Accounting for Investments in Associates in Consolidated Financial Statements
- AS 24** Discontinuing Operations
- AS 25** Interim Financial Reporting
- AS 26** Intangible Assets
- AS 27** Financial Reporting of Interests in Joint Ventures
- AS 28** Impairment of Assets
- AS 29** Provisions, Contingent` Liabilities and Contingent Assets
- AS 30** Financial Instruments: Recognition and Measurement and Limited Revisions to AS 2, AS 11 (*revised 2003*), AS 21, AS 23, AS 26, AS 27, AS 28 and AS 29
- AS 31** Financial Instruments: Presentation
- AS 32** Financial Instruments: Disclosures, and limited revision to Accounting Standard (AS) 19, Leases

Note: ICAI has also issued Accounting Standard Interpretations (ASI) and General Clarifications(GC). Both are issued under the authority of the Accounting Standard Board; and in addition, the ASIs are issued under the authority of the Council.

Quality Control			
New Standard Number (SQC) (1-99)	Standards on Quality Control (SQC)	Corresponding Auditing and Assurance Standard (AAS) Number	Effective for all audits related to accounting periods beginning on or after
1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	-	Effective for all engagements relating to accounting periods beginning on or after April 1, 2009.
Audits and Reviews of Historical Financial Information			
New Standard Number (SA) (100-999)	Standards on Auditing (SAs)		
100-199	<i>Introductory Matters</i>		
200-299	<i>General Principles and Responsibilities</i>		
200	Basic Principles Governing an Audit ¹	1	April 1, 1985
200A	Objective and Scope of the Audit of Financial Statements ²	2	April 1, 1985
210	Terms of Audit Engagement	26	April 1, 2003
220	Quality Control for Audit Work	17	April 1, 1999
230	Documentation	3	July 1, 1985
230(Revised)	Audit Documentation ³	3	1st April, 2009.
240	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements ⁴	4	April 1, 2003
240 (Revised)	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements ⁵	SA 240	1 st April, 2009.
250	Consideration of Laws And Regulations in an Audit of Financial Statements	21	July 1, 2001
250 (Revised)	The Auditor's Responsibilities Relating to Laws and Regulation in an Audit of Financial Statements ⁶	21	1 st April, 2009.
260	Communications of Audit Matters With Those Charged With Governance	27	April 1, 2003
260 (Revised)	Communication with Those Charged with Governance ⁷	27	1 st April, 2009.
299	Responsibility of Joint Auditors	12	April 1, 1996
300-499	<i>Risk Assessment and Response to Assessed Risks</i>		
300	Audit Planning	8	April 1, 1989
300 (Revised)	Planning an Audit of Financial Statements ⁸	SA 300	1st April, 2008.

¹ The Board has undertaken a project to issue a single Standard on Auditing (SA) corresponding to ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" and withdraw the SA 200 and SA 200A.

² *ibid*

³ Published in January, 2009 issue of the Journal.

⁴ SA 240, "The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements" becomes operative for all audits related to accounting periods beginning on or after 1st April, 2003. The original AAS 4, 'Fraud and Error', issued in June, 1987, remains operative for all audits relating to accounting periods beginning on or before 31st March, 2003.

⁵ Published in December, 2007 issue of the Journal.

⁶ Published in December, 2008 issue of the Journal.

⁷ Published in December, 2008 issue of the Journal.

⁸ Published in December, 2007 issue of the Journal.

BANK AUDIT – STANDARDS ON AUDITING (CONTD.)			G.I
315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment ⁹	-	April 1, 2008.
320	Audit Materiality	13	April 1, 1996
330	<i>The Auditor's Responses to Assessed Risks</i> ¹⁰	-	April 1, 2008.
402	Audit Considerations Relating to Entities Using Service Organisations	24	April 1, 2003
500–599	Audit Evidence		
500	Audit Evidence	5	January 1, 1989
501	Audit Evidence – Additional Considerations for Specific Items	34	April 1, 2005
505	External Confirmations	30	April 1, 2003
510	Initial Engagements – Opening Balances	22	July 1, 2001
510 (Revised)	Initial Audit Engagements—Opening Balances ¹¹	22	April 1, 2010.
520	Analytical Procedures	14	April 1, 1997
530	Audit Sampling	15	April 1, 1998
530 (Revised)	Audit Sampling ¹²	15	April 1, 2009.
540	Auditing of Accounting Estimates	18	April 1, 2000
540 (Revised)	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures ¹³	18	April 1, 2009.
550	Related Parties	23	April 1, 2001
550 (Revised)	Related Parties ¹⁴	23	April 1, 2009.
560	Subsequent Events	19	April 1, 2000
560 (Revised)	Subsequent Events ¹⁵	19	April 1, 2009.
570	Going Concern	16	April 1, 1999
570 (Revised)	Going Concern ¹⁶	16	April 1, 2009.
580	Representations by Management	11	April 1, 1995
580 (Revised)	Written Representations	11	April 1, 2009.
600-699	Using Work of Others		
600	Using the Work of Another Auditor	10	April 1, 2002
610	Relying Upon the Work of an Internal Auditor	7	April 1, 1989
620	Using the Work of an Expert	9	April 1, 1991

⁹ Published in February, 2008 issue of the Journal.

¹⁰ Published in February, 2008 issue of the Journal.

¹¹ The Council, at its 283rd meeting held from December 18 to 20, 2008, has approved the draft of the Revised Standard on Auditing (SA) 510, and will be issued very soon as a separate publication of the Institute.

¹² The Council, at its 283rd meeting held from December 18 to 20, 2008, has approved the draft of the Revised Standard on Auditing (SA) 530, and will be issued very soon as a separate publication of the Institute.

¹³ The Council, at its 283rd meeting held from December 18 to 20, 2008, has approved the draft of the Revised Standard on Auditing (SA) 540, and will be issued very soon as a separate publication of the Institute.

¹⁴ The Council, at its 283rd meeting held from December 18 to 20, 2008, has approved the draft of the Revised Standard on Auditing (SA) 550, and will be issued very soon as a separate publication of the Institute.

¹⁵ Published in January, 2009 issue of the Journal.

¹⁶ Published in October, 2008 issue of the Journal.

BANK AUDIT – STANDARDS ON AUDITING (CONTD.)			G.I
700-799	Audit Conclusions and Reporting		
700	The Auditor's Report on Financial Statements	28	April 1, 2003
700	<i>Forming an Opinion and Reporting on Financial Statements</i> (REVISED)	28	
705	<i>Modifications to the Opinion in the Independent Auditors Report and Standard on Auditing</i>		
706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditors Report</i>		
710	Comparatives	25	April 1, 2003
710	Comparatives (REVISED)	25	
800-899	Specialized Areas		
New Standard Number (SRE) (2000-2699)	Standards on Review Engagements (SREs)		
2400	Engagements to Review Financial Statements ¹⁷	33	April 1, 2005
Assurance Engagements Other Than Audits or Reviews of Historical Financial Information			
New Standard Number (SAE) (3000-3699)	Standards on Assurance Engagements (SAEs)		
3000-3399	Applicable to all Assurance Engagements		
3400-3699	Subject Specific Standards		
3400	The Examination of Prospective Financial Information	35	in relation to reports on projections/ forecasts, issued on or after April 1, 2007
Related Services			
New Standard Number (SRS) (4000-4699)	Standards on Related Services (SRSs)		
4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information ¹⁸	32	Applicable to all agreed upon procedures engagements beginning on or after April 1, 2004
4410	Engagements to Compile Financial Information ¹⁹	31	Applicable to all compilation engagements beginning on or after April 1, 2004

¹⁷ With the issuance of SRE 2400, the Guidance Note on Engagement to Review Financial Statements issued by the Institute of Chartered Accountants of India in May 2000 stands withdrawn.

¹⁸ With the issuance of this SRS, the Guidance Note on Engagements to Perform Agreed-upon Procedures regarding Financial Information, issued by the Institute of Chartered Accountants of India in July 2001, shall stand withdrawn.

¹⁹ With the issuance of this SRS, the Guidance Note on Members' Duties regarding Engagements to Compile Financial Information, issued by the Institute of Chartered Accountants of India in February 2002, shall stand withdrawn.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND
CORRESPONDING INDIAN GAAPS (For information)

Standard Reference	Title	Corresponding Indian Standard (GAAP)
IFRS 1	First-time Adoption of International Financial Reporting Standards	Not relevant to India at present
IFRS 2	Share-based Payment	Standard under preparation. Guidance Note exists
IFRS 3	Business Combinations	AS 14
IFRS 4	Insurance Contracts	Standard under preparation.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	AS 24
IFRS 6	Exploration for and Evaluation of Mineral Resources	Guidance Note on Accounting for OIL and Gas Producing Activities.
IFRS 7	Financial Instruments: Disclosures	AS 32 (not mandatory at present)
IFRS 8	Operating Segments	AS 17
IFRS 9	Financial instruments	
IAS 1	Presentation of Financial Statements	AS 1
IAS 2	Inventories	AS 2 (revised)
IAS 7	Statement of Cash Flows	AS 3 (revised)
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5 (revised)
IAS 10	Events after the Reporting Period	AS 4 (revised)
IAS 11	Construction Contracts	AS 7 (revised)
IAS 12	Income Taxes	AS 22
IAS 16	Property, Plant and Equipment	AS 10 and AS 6 (revised)
IAS 17	Leases	AS 19
IAS 18	Revenue	AS 9
IAS 19	Employee Benefits	AS 15
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12
IAS 21	The Effects of Changes in Foreign Exchange Rates	AS 11 (revised)
IAS 23	Borrowing Costs	AS 16
IAS 24	Related Party Disclosures	AS 18
IAS 26	Accounting and Reporting by Retirement Benefit Plans	Standard under preparation.
IAS 27	Consolidated and Separate Financial Statements	AS 21
IAS 28	Investments in Associates	AS 23
IAS 29	Financial Reporting in Hyperinflationary Economies	Not relevant in Indian conditions
IAS 31	Interests in Joint Ventures	AS 27
IAS 32	Financial Instruments: Presentation	AS 31 (recommendatory)
IAS 33	Earnings per Share	AS 20
IAS 34	Interim Financial Reporting	AS 25 (under revision – Exposure Draft issued)
IAS 36	Impairment of Assets	AS 28
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (Revision proposed in Exposure Draft)	AS 29
IAS 38	Intangible Assets	AS 26
IAS 39	Financial Instruments: Recognition and Measurement	AS 30 (recommendatory)

G.II INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND CORRESPONDING INDIAN GAAPS (For information)		
<i>Standard Reference</i>	<i>Title</i>	<i>Corresponding Indian Standard (GAAP)</i>
IAS 40	Investment Property	AS 13 (part covered)
IAS 41	Agriculture	Standard under preparation.
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	
IFRIC 4	Determining whether an Arrangement contains a Lease	
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	
IFRIC 6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment	
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	
IFRIC 8	Scope of IFRS 2	
IFRIC 9	Reassessment of Embedded Derivatives	
IFRIC 10	Interim Financial Reporting and Impairment	
IFRIC 11	Group and Treasury Share Transactions	
IFRS 2		
IFRIC 12	Service Concession Arrangements	
IFRIC 13	Customer Loyalty Programmes	
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	
IAS 19		
IFRIC 15	Agreements for the Construction of Real Estate	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	
IFRIC 17	Distributions of Non-cash Assets to Owners	
IFRIC 18	Transfers of Assets from Customers	
IFRIC 19	Extinguishing Financial liabilities	
SIC-7	Introduction of the Euro	
SIC-10	Government Assistance—No Specific Relation to Operating Activities	
SIC-12	Consolidation—Special Purpose Entities	
SIC-13	Jointly Controlled Entities—Non-Monetary Contributions by Venturers	
SIC-15	Operating Leases—Incentives	
SIC-21	Income Taxes—Recovery of Revalued Non-Depreciable Assets	
SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders	
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	
SIC-29	Service Concession Arrangements: Disclosures	
SIC-31	Revenue—Barter Transactions Involving Advertising Services	
SIC-32	Intangible Assets—Web Site Costs	
IFRS International Financial Reporting Standard (<i>standards issued after 2001</i>) IAS International Accounting Standard (<i>standards issued prior to 2001</i>) IFRIC International Financial reporting Interpretations Committee (<i>issued after 2001</i>) SIC Standards Interpretations Committee (<i>issued prior to 2001</i>) <i>(IAS 3, 4, 5, 6, 9, 13, 14, 15, 22, 25, 30 and 35 have been withdrawn)</i>		

BANK AUDIT

INTERNAL CONTROLS - BANKS

INTRODUCTION

Additional responsibilities cast on the auditors and the scope of their work getting extended in the areas of reporting on frauds, fraudulent activities, foul play in banking transactions require the auditor to address these.

Audit Risks

- a) These arise inter alia, due to :
 - **Lack of** internal control systems;
 - **Inadequate** internal controls ; and
 - **Breach of** internal controls.
- b) In EDP environment :
 - Loss of audit trail
 - Non – review of exceptional reports (systems/ transactions)
 - Lack of security systems (hardware/ software)

The exercise of internal control evaluation if properly carried out, assists the auditor to determine the effectiveness or otherwise of the control systems and accordingly, enables him to strengthen his audit procedures, and to lay appropriate emphasis on the risk prone areas. It may be noted that transactions in banks are voluminous but repetitive, and fall into limited categories/heads of account. It may, therefore, be more appropriate that the evaluation of the internal controls is made for each class/category of transactions.

Internal controls include:

- a) accounting controls, and
- b) administrative controls.

Accounting controls cover areas directly concerned with recording of financial transactions and maintenance of such registers/ records as ensure their reliability. Broadly, these controls relate to execution of transactions as are in conformity with:

- a) legal requirements and those of the regulatory bodies,
- b) generally accepted accounting principles and practices, (of which significant accounting policies are expected to be disclosed), and
- c) general or specific authority and delegation of powers laid down by the management,

so that the financial statements and data are drawn up based on transactions as are authorised and provide reasonable assurance as to reliability thereof.

Internal accounting controls also envisage such procedures as would determine responsibility and fix accountability with regard to safeguarding of the assets of the bank.

It may not be out of place to mention that there is a distinction between accounting systems and internal accounting controls. Accounting system envisages the processing of the transactions and events, their recognition and appropriate recording. Internal controls are techniques, methods and procedures so designed and usually built into systems, as would enable prevention as well as detection of errors, omissions or irregularities in the process of execution and recording of transactions/events.

Reference is also drawn to SA 400 (AAS 6), “Risk Assessments and Internal Control”

Administrative controls, broadly, are concerned with the decision processes and laying down of authority / delegation of powers, by the management.

Internal Accounting Control Techniques

These involve:

- Prevention of errors, omissions and irregularities:
- Detection of errors, omissions and irregularities:

BANK AUDIT

INTERNAL CONTROLS - BANKS

Prevention of errors, omissions and irregularities:

The internal accounting controls as would ensure prevention of errors, omissions and irregularities would include the following:

- a) No transaction can be recognised/recorded unless it is sanctioned/approved by the designated authority.
- b) Built-in dual control/supervisory procedures ensure that there is an independent automatic check on inputs/ vouchers, also providing built in checks on personnel identified to transactions as recorded and to fix responsibility.
- c) No single person has authority to initiate a transaction and record it through all stages to the general ledger; and each day's transactions are promptly and accurately recorded, and the control and subsidiary records are kept balanced through personnel independent of each other.

Detection of errors, omissions and irregularities:

The following internal control techniques are useful as would enable detection of errors, omissions and irregularities:

- a) Independent external evidence/direct confirmation procedures.
- b) Internal/concurrent audit/inspection/special surprise checks.
- c) Balancing of control and subsidiary records.

The Auditor would be well advised to look into other areas as may lead to detection of errors, omissions and irregularities, inter-alia the following:

- a) Missing/loss of security paper stationery forms.
- b) Extensive use of and accumulation of transactions/balances in nominal heads of accounts like Suspense, Sundries, Inter-branch accounts, or other nominal heads of accounts, particularly if these accounts are frequently used to balance books, despite availability of information.
- c) Accumulation of old/large unexplained/unsubstantiated entries in accounts (as may also appear in the periodic reconciliation statements), with other banks and institutions.
- d) Transactions represented by mere book adjustments not evidenced/ substantiated or upon non-honouring of contracts/commitments (e.g. dishonour of Bankers' Receipt/SGL Forms in the Investment Department).
- e) Unexplained and old credits, capable of being misused. These could also arise by creation or retention of credits, also represented by holding in physical custody, undespached Deposit Receipts of constituents, Banker's cheques, Pay Orders and similar instruments (particularly not in dual custody).
- f) Originating debits in Head Office Accounts (inter-branch accounts).
- g) Results of periodic analytical reviews, if observed as adverse.
- h) Serious irregularities pointed out in internal audit/ inspection/special audit/credit audit/stock audit reports and in "Know Your Customers" norms and frequent infraction of delegated authority.
- i) Complaints/matters pending in the Vigilance/Grievances Cell, as regards discrepancies in accounts of constituents, etc.
- j) **Exceptional daily reports** in the EDP environment as regards systems and transactions and the manner and timeliness of disposal thereof.
- k) Delays in reporting critical transactions and events.
- l) Operations(credits) in advances being adversely disproportionate with sanction, disbursements of funds.
- m) Exceptional transactions and events and in particular those involving willful defaulters, noncompliance of laid down guidelines e.g., on Money Laundering, 'Know your Customer' norms etc.(Refer also RBI Circular **DBOD.AML. BC. No. 2/14 .01.001/2009-10 dated 1-7-2009**)
- n) Lack of co-ordination procedures between administrative centralized offices having custody/control over documentation and the branch where the borrower's account is maintained and serviced, based only on Sanction advices.

BANK AUDIT

BASIC ANALYTICAL PROCEDURES/REVIEWS

To begin with, the figures of the current year should be compared with those of the previous year and any disproportionate increase/decrease should be enquired into; in particular the composition of the advances as classified into Standard, Sub Standard, Doubtful or Loss assets as well as the impact on the movements in provisions related thereto (Refer also to Annexure II in Section A).

Attention must be focused on any divergent trends between revenue/expenditure and related assets or liabilities.

Analysis needs to be made of the propensity of upward/downward movements in income not realised on the NPAs to determine the potential loss of revenue, which can also be gauged independently on a year-wise comparison of the aggregate of **unapplied interest, interest suspense and right of recompense** in relation to advances.

Financial and performance ratios should be considered useful in connection with any audit; and for banks these ratios could be categorised into those relating to:

a) ASSET QUALITY

b) LIQUIDITY

c) EARNINGS

a) ASSET QUALITY RATIOS

- Loan Losses to Total Advances
- NPAs to Total Advances
- Net Profit to Loan Losses
- Doubtful Advances to Gross Income
- Permanent/Current Investments to Total Investments
- Market value to cost of:
 - .Permanent Investments
 - .Current Investments

b) LIQUIDITY RATIOS

- Cash and liquid securities (e.g. those due within 30 days) to total assets
- Inter-bank and money market deposit liabilities to total assets

c) EARNINGS RATIOS

- Return on: . average total assets
 . average total equity
- Interest on: . advances as a percentage of Average Advances
 . Deposits as a percentage of Average Deposits
- Income/yield on Average Investments and return of Treasury Functions.
- Average interest earned on advances to average interest expended on Deposits and borrowings (Average cost of borrowing vis-a-vis average yield on moneys applied)
- Ratio of unapplied interest income/income suspense to Advances.

d) PRIMA FACIE INCONSISTENCIES

- Standard Assets having Interest Suspense or Unapplied Interest
- Interest Provision/ accretion on Non Performing Assets
- Status of borrower – cum- investee being at variance
- Regular invoking of Guarantees in Standard Advances

BANK AUDIT (2009-10)**J****List of Important Circulars issued by RBI during the period 01.01.2009 to 7-3-2010***(Master Circulars given in bold font)*

Particulars	Date	Subject
DBOD.BP.No.104/21.04.132/2008-09	02.01.2009	Prudential Guidelines on Restructuring of Advances by Banks
DBOD. No.BP.BC.No. 105/21.04.132/2008-09	04.02.2009	Prudential Guidelines on Restructuring of Advances by Banks
DBOD.BP.BC.No.109/21.06.001/2008-09	05.02.2009	Introduction of Advanced Approaches of Basel II Framework in India –Draft Time Schedule
DBOD No. BP. BC. 121 /21.04.132/ 2008-09	09.04.2009	Prudential Guidelines on Restructuring of Advance by Banks
DBOD.No.BP.BC.No.124/21.04.132/2008-09	17.04.2009	Prudential guidelines on restructuring of advances
DBOD.No. BP. BC.127/ 21.04.009/2008-09	22.04.2009	Extension of Guarantee - Maturity beyond Ten years
DBOD. No. Dir. BC.128/13.03.00/2008-09 DBOD. No. Dir. BC 77/13.03.00/2009-10	24.04.2009 19-2-2010	Payment of Interest on Savings Bank Account on a Daily Product Basis
DBOD.Dir.(Exp).BC.No.131/04.02.001/2008-09	29.04.2009	Rupee Export Credit Interest Rates
DBOD.BP.BC.No.133/21.04.018/2008-09	11.05.2009	Reconciliation of Nostro accounts and treatment of outstanding entries
DBOD.No.DIR.BC.136/13.03.00/2008-09	29.05.2009	Issue of Guarantees by banks
DBOD.No.BP.BC.140 /21.04.048/2008-09	25.06.2009	Agricultural Debt Waiver and Debt Relief Scheme, 2008 – Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy
DBOD.No.DL.BC. 138/20.16.042/2008-09	24.06.2009	Access to own credit report
DBOD No. BP. BC.3 / 21.04.141 / 2009-10	01.07.2009	Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks
DBOD.BP.BC.No.5/21.04.172/2009-10	01.07.2009	Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)
DBOD.No.BP.BC. 17 /21.04.048/2009-10	01.07.2009	Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
DBOD.BP.BC No.22 /21.04.018/2009-10	01.07.2009	Master Circular - Disclosure in Financial Statements - Notes to Accounts
DBOD.No.BP.BC. 21 /21.06.001/2009 - 10	01.07.2009	Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework (NCAF)
DBOD No. DL.BC. 16 /20.16.003/2009-10	01.07.2009	Master Circular on Wilful Defaulters
RPCD. CO. Plan. BC. 2 /04.09.01/ 2009-10	01.07.2009	Master Circular - Lending to Priority Sector
DBS. FrMC. BC. No. 1/23.04.001/2009-10	01.07.2009	Frauds – Classification and Reporting
RPCD.SME &NFS. BC. No.10/ 06.02.31/ 2009-10	01.07.2009	Master Circular Lending to Micro, Small & Medium Enterprises (MSME) Sector

BANK AUDIT (2009-10)**J****List of Important Circulars issued by RBI during the period 01.01.2009 to 7-3-2010***(Master Circulars given in bold font)*

DBOD.No.FSD.BC.19 / 24.01.011/ 2009-10	01.07.2009	Master Circular on Credit Card Operations of banks
DBOD. No.FSD.BC 18/ 24.01.001/ 2009-10	01.07.2009	Master Circular - Para-banking Activities
DBOD. No.Dir. BC 10/13.03.00/2009-10	01.07.2009	Master Circular - Interest Rates on Advances
DBOD.No. Dir. BC. 11 /13.03.00/2009-10	01.07.2009	Master Circular on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts
DBOD. No. Dir. BC.12 /13.03.00/2009-10	01.07.2009	Master Circular of instructions relating to deposits held in FCNR(B) Accounts
DBOD No. Dir. BC 13/13.03.00/2009-10	01.07.2009	Master Circular- Loans and Advances – Statutory and Other Restrictions
DBOD. No. Dir. BC. 14 /13.03.00/2009-10	01.07.2009	Master Circular - Guarantees and Co-acceptances
DBOD No. Dir. BC.15/13.03.00/ 2009-10	01.07.2009	Master Circular – Exposure Norms
DBOD. AML. BC. No.1 / 14.08.001 / 2009 – 10	01.07.2009	Master Circular – Foreign Contribution (Regulation) Act, 1976 – Obligations of Banks in Regulating Receipt of Foreign Contributions by Associations / Organizations in India
DBOD. AML. BC. No. 2/14 .01.001/2009-10	01.07.2009	Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002
DBOD No.DIR. (Exp).BC.07/04.02.02/2009-10	01.07.2009	Master Circular on Rupee/Foreign Currency Export Credit & Customer Services to Exporters
DBOD. No.DIR. (HSG). BC.08 /08.12.01/2009-10	01.07.2009	Master Circular on HOUSING FINANCE
DBOD.BP.BC.No. 23 /21.06.001/2009-10	07.07.2009	Introduction of Advanced Approaches of Basel II Framework in India – Time Schedule
DBOD.Dir.(Exp).BC.No.26 /04.02.001/2009-10	31.07.2009	Rupee Export Credit Interest Rates
DBOD No.BP.BC. 28 /21.04.141/2009-10	04.08.2009	Inter bank Participations - Scheduled Commercial Banks
DBOD.No.FID.FIC.5/01.02.00/2009-10	05.08.2009	Lending under Consortium Arrangements/Multiple Banking Arrangements
DBOD.No.Leg.BC.30 /09.07.005/2009-10	12.08.2009	Payment of interest on accounts frozen by banks
DBOD.BP.BC No. 32 / 21.01.001/ 2009-10	27.08.2009	Collection of account payee cheque – Prohibition on crediting proceeds to third party account
DBOD.No.BP.BC. 33/21.04.048/2009-10	27.08.2009	Prudential Treatment in respect of Floating Provisions
DBOD.No.BP.BC. 35/21.04.048/2009-10	31.08.2009	Agricultural Debt Waiver and Debt Relief Scheme, 2008 – Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy
DBOD.No. Dir (Exp). BC. 39/04.02.001/2009-10	07.09.2009	Gold Card Scheme for Exporters
DBOD.BP.BC.No. 42 /08.12.015/ 2009-10	09.09.2009	Guidelines on Classification of Exposures as Commercial Real Estate (CRE) Exposures

BANK AUDIT (2009-10)**J****List of Important Circulars issued by RBI during the period 01.01.2009 to 7-3-2010***(Master Circulars given in bold font)*

DBOD.No.Ret. BC.45/12.01.001/2009-10	18.09.2009	Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
DBOD.No.BP.BC. 46 /21.04.048/2009-10	24.09.2009	Prudential Norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances - Computation of NPA Levels
DBOD.Leg. No.BC. 55 /09.07.005 /2009-10	30.10.2009	Inoperative Accounts
DBOD.Dir.(Exp).BC.No. 54/04.02.001/2009-10	29.10.2009	Rupee Export Credit Interest Rates
DBOD.No.BP.BC. 58 /21.04.048/2009-10	05.11.2009	Second Quarter Review of Monetary Policy for the Year 2009-10 – Provisioning Requirement for Standard Assets
DBOD. AML. No. 8299 /14.06.057/2009-10	11.11.2009	List of Terrorist Individuals/Organisations - under UNSCR 1267(1999) and 1822(2008) on Taliban/ Al-Qaida Organsaition
DBOD.No.FSD.BC. 60/24.01.001/2009-10	16.11.2009	Marketing/distribution of mutual fund/insurance etc., products by banks
DBOD.No.BP.BC. 64 /21.04.048/2009-10	1.12.2009	Second Quarter Review of Monetary Policy for the Year 2009-10 –Provisioning Coverage for Advances
DBOD.No.BL.BC. 65 /22.01.001/2009-10	1.12.2009	Section 23 of the Banking Regulation Act, 1949 – Relaxations in Branch Authorisation Policy
DBOD. AML. No.11031/14.06.059/2009-10	21.12.2009	List of Terrorist Individuals/Organisations - under UNSCR 1267(1999) and 1822(2008) on Taliban/Al-Qaida organsaition
DBOD.Dir.BC. 66 /13.03.00/2009-10	23.12.2009	Banks' Exposure to Capital Market – Loans extended by banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
DBS.ARS.BC.No.09/ 08.92.001/ 2009-10	31.12.2009	Remuneration payable to the Statutory Central and Branch Auditors of Public Sector Banks from the year 2006-07
DBOD.No.FID.FIC.7/01.02.00/2009-10	5.1.2010	Prudential Norms on Creation and Utilisation of Floating Provisions
DBOD.No.FSD.BC. 67/24.01.001/2009-10	7.1.2010	Disclosure in Balance Sheet – Bancassurance Business
DBOD. AML.BC. No. 68 /14.01.001/2009-10	12.1.2010	Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 - Obligation of banks/Financial institutions

BANK AUDIT (2009-10)**J****List of Important Circulars issued by RBI during the period 01.01.2009 to 7-3-2010***(Master Circulars given in bold font)*

DBOD.BP.BC.No. 69 / 21.01.002/ 2009-10	13.1.2010	Retail Issue of Subordinated Debt for Raising Tier II Capital
DBOD. AML. No. 12841 /14.06.060/2009-10	21.1.2010	List of Terrorist Individuals/ Organisations - under UNSCR 1267(1999) and 1822(2008) on Taliban/Al-Qaida Organisation
DBOD. AML.No.13039/14.06.060/2009-10	25.1.2010	List of Terrorist Individuals/ Organisations - under UNSCR 1267(1999) and 1822(2008) on Taliban/Al-Qaida Organisation
DBOD.No.Ret.BC. 71/12.01.001/2009-10	29.1.2010	Section 42(1) of the Reserve Bank of India Act, 1934 - Maintenance of CRR
A. P. (DIR Series) Circular No.30	1.2.2010	Export and Import of Currency
DBOD.No.BL.BC. 72 /22.01.001/2009-10	1.2.2010	Section 23 of the Banking Regulation Act, 1949 – Relaxations in Branch Authorisation Policy
DBOD. AML.No. 13388 /14.06.061/2009-10	1.2.2010	List of Terrorist Individuals/ Organisations - under UNSCR 1267(1999) and 1822(2008) on Taliban/Al-Qaida Organisation
DPSS CO EPPD No.168 / 04.03.01 / 2009-2010	5.2.2010	National Electronic Funds Transfer (NEFT) System – Refinement of process-flow and enhancement of features
DBOD.No.BP.BC. 73 /21.06.001/2009-10	8.2.2010	Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF)
A.P. (DIR Series) Circular No.32	9.2.2010	Exim Bank's Line of Credit (LOC) of USD 100 million to Bank for Development and Foreign Economic Affairs (Vnesheconombank), Russia
A. P. (DIR Series) Circular No.33	9.2.2010	External Commercial Borrowings (ECB) Policy – Liberalisation
A.P. (DIR Series) Circular No. 34	11.2.2010	Exim Bank's Line of Credit of USD 15 million to the Government of the Republic of Mali
DBOD. No. BP. BC. 74/21.04.172/ 2009-10	12.2.2010	Risk weights and exposure norms in respect of bank exposure to NBFCs categorised as 'Infrastructure Finance Companies'

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List of Important Circulars issued by RBI during the period 01.01.2009 to 7-3-2010
(Master Circulars given in bold font)

A. P. (DIR Series) Circular No.35	17.2.2010	Memorandum of Procedure for channeling transactions through Asian Clearing Union (ACU)
DCM(Plg)No. G-18 /10.01.03/2009-10	19.2.2010	Setting up of Cash Processing Centres – Recommendation of HLG
DBOD.DIR.(Exp).No. 76/04.02.001/2009-10	19.2.2010	Interest Rates on Export Credit in Foreign Currency
DBOD. No. Dir. BC 77/13.03.00/2009-10	19.2.2010	Payment of Interest on Savings Bank Account on Daily Product Basis

BANK AUDIT – FRAUDS

K

(Broad Guidance and information on expectations from Auditors in Bank Audit)

Bank audit appointments now contain a stipulation that auditors need to report to the Chairman of the Bank and in cases of amounts above Rs.100 lacs, also to the RBI on matters which susceptible to frauds, fraudulent activity etc.

1. ATTENTION IS DRAWN TO THE REQUIREMENTS OF THE RESERVE BANK OF INDIA AS REGARDS CLASSIFICATION AND REPORTING ON FRAUDS, VIDE CIRCULAR DBS. FrMC. BC. No. 1/23.04.001/2009-10 DATED 1-7.2009, WHICH BROADLY DEALS WITH:

A. CLASSIFICATION OF FRAUDS (classified mainly on the provisions of the Indian Penal Code)

In order to have uniformity in reporting, frauds (not involving theft, burglary or dacoity to be separately reported to RBI in Form FMR -4)), have been classified as under:

- (a) Misappropriation and criminal breach of trust.
- (b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
- (c) Unauthorised credit facilities extended for reward or for illegal gratification.
- (d) *Negligence and cash shortages.
- (e) Cheating and forgery.
- (f) *Irregularities in foreign exchange transactions.
- (g) Any other type of fraud not coming under the specific heads as above.
(* to be reported if the intention to cheat/defraud is suspected/proved)

B. REPORTING OF FRAUDS TO RBI (including where RBI directs for such reporting and where central investing agencies have initiated criminal proceedings) – Soft and hard copies to be furnished.

- Frauds involving Rs.1 lac and above
- Frauds committed by unscrupulous borrowers
- Frauds involving Rs.100 lacs and above
- Cases of attempted frauds

(Attention is drawn to the Reporting format prescribed by RBI - **Form FMR – 1**, in terms of Para 3 of the Circular dated 1-7-2009)

C. QUARTERLY RETURNS (reporting in Form FMR -2 and progress report in FMR -3)

- Reporting on Frauds outstanding (including a NIL report if there are none outstanding)
- Progress report on frauds
(Banks need to furnish a confirmation to RBI that all frauds above Rs. 1.00 lac have been put up to the Bank's Board)

D. REPORTS TO THE BOARD (refer Para 5 of the Circular)

- Reporting of frauds
- Quarterly review of fraud cases (refer Para 5.2)
- Annual review of fraud cases (Refer Para 5.3)

E. GUIDELINES FOR REPORTING OF FRAUDS TO POLICE/CBI (Para 6 of the Circular dated 1-7-2009)

F. REPORTING (CASES OF THEFT,BURGLARY,DECOITY AND BANK ROBBERIES

(refer Para 7 – Reporting in Form FMR – 4)

Reporting to RBI is to be the responsibility of an official of the rank of General Manager, the reports to be as per the software on **FRAUDS REPORTING AND MONITORING SYSTEM**.

2. Auditors should refer also the latest Circulars of the RBI, covered by the appointment letter issued containing the stipulation and requiring the auditors to cover frauds in their reports.

(Refer also, the initial RBI Circular DBS.ARS.No.B.C.4/08.91.001/2004 dated 27-8-2004 as regards the terms and conditions of appointment of Statutory/Concurrent/Internal Auditors – Implementation of the recommendations of the Committee on Legal Aspects of Bank Frauds and those of the High Level Group set up by the Central Vigilance Commission)

3. SCOPE OF WORK NOW COVERS REPORTING ON:

- ANYTHING SUSCEPTIBLE TO FRAUD
- FRAUDULENT ACTIVITY
- ACT OF EXCESS POWER
- 'SMELL FOUL' PLAY IN ANY TRANSACTION

(Broad Guidance and information on expectations from Auditors in Bank Audit)

5. AREAS OF CONCERN FOR THE AUDITORS/SUGGESTIONS WILL INVOLVE LOOKING INTO IN DEPTH

a) INTERNAL CONTROL SYSTEMS AND PROCEDURES

- ABSENCE
- INADEQUACY
- BREACH OF

WHICH WILL REQUIRE THE AUDITORS TO ENQUIRE (*PREFERABLY IN WRITING*) INTO ANY MATTERS PENDING IN VIGILANCE, INTERNAL ENQUIRY INVOLVING MISDEMEANOUR IN TRANSACTIONS OR EVENTS, CASES WHERE CRIMINAL PROCEEDINGS HAVE BEEN INITIATED BY INVESTIGATING AGENCIES OR WHERE RBI MAY HAVE DIRECTED TO TREAT ANY CASE AS A FRAUD CASE, AND TO DOCUMENT THIS.

The Auditors also need to be familiar with Guidelines relating to Anti Money Laundering and dealings with Willful defaulters (RBI Master Circular DBOD. AML. BC. No. 2/14 .01.001/2009-10 dated 1.7.2009) that might result in frauds.

Attention is drawn to Para 5.3 of the RBI Circular dated 1-7-2009 dealing with the Bank's Annual Review of Frauds which, inter alia, also focus on the systems aspects as under :

- Whether the **systems** in the bank are **adequate** to detect frauds, once they have taken place, within the shortest possible time.
- Whether frauds have taken place because of **laxity in following the systems** and procedures and, if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned.

b) RISKS ATTACHED TO EXTENSIVE USE OF NOMINAL HEADS

- with old, large outstandings, which cannot be ignored

c) DELINQUENCY IN CUSTODY AND CONTROL OVER CRITICAL/SECURITY PAPER STATIONERY

NUMBERED FORMS (CHEQUE BOOKS, WITHDRAWAL SLIPS, PAY ORDERS, BANKER'S CHEQUES, DDs TTs, MTs and other similar instruments)

d) UNRECORDED CONTINGENT LIABILITIES/OBLIGATIONS AND OFF BALANCE SHEET EXPOSURES

(including Letters of Comfort and other similar commitments, if in vogue, and not recorded in the Registers)

e) UNSUBSTANTIATED DEBITS

- **IN INOPERATIVE ACCOUNTS OR THOSE EXPECTED TO BE FROZEN AT BRANCH LEVEL..**
- **AGAINST OLD BALANCES PICKED UP FROM MANUALLY MAINTAINED ACCOUNTS UPON SWITCH OVER TO COMPUTERISATION**
- **BY CREATION OR RETENTION OF WRONGFUL CREDITS or allowing unscrutinised credits to continue for potential misuse, e.g., Old Banker's cheques, Pay Orders etc.**

f) LOSS OF CONTROL OVER CREDITS COMPRISING TERM DEPOSITS

(FOREX/ RUPEE)..CONSEQUENT UPON AUTOMATIC RENEWALS ON MATURITY OF OLD DEPOSITS

Banks appear to have lost control over these

- **THERE MAY BE DEPOSIT RECEIPTS ISSUED BUT IN THE PHYSICAL POSSESSION OF BRANCHES (without dual control)**
- **ADJUSTMENT ENTRIES MADE (IN BOOKS), ON MATURITY DATES WITHOUT ISSUANCE OF RECEIPTS, AS PART OF THE COMPUTERISED SYSTEM**
- **RENEWALS BY ENDORSEMENTS ON THE INVERSE OF OLD RECEIPTS WITH INADEQUATE RECORDING.**

g) DELINQUENCY IN OPENING OF NEW DEPOSIT ACCOUNTS

(without observing "Know your customer" norms)

h) Unreconciled Merchant Deposit Accounts

i) INTER BRANCH - ARREARS OF MATCHING/RECONCILIATION OF ENTRIES

(Old/unexplained and other entries over six months old in various nominal heads at the Branch level)

j) UNLINKED DEBITS IN BILLS PAYABLE, BANKER'S CHEQUES AND SIMILAR INSTRUMENTS

BANK AUDIT – FRAUDS

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(Broad Guidance and information on expectations from Auditors in Bank Audit)

k) **NON IDENTIFICATION OF AND ADVANCES TO WILFUL DEFAULTERS ON THE LIST OF RBI**

(Reasons for Quick mortality in advances, say within 12-24 months of sanction should also be enquired and, these will indicate lapses in (appraisal)

Wilful Defaulters:

Pursuant to the instructions of the Central Vigilance Commission for collection of information on wilful defaults of Rs.25 lakhs and above by RBI and dissemination to the reporting banks and FIs, a scheme was framed by RBI with effect from 1st April 1999 under which the banks and notified All India Financial Institutions were required to submit to RBI the details of the wilful defaulters.

As per the Master Circular of RBI (DBOD No. DL.BC. 16 /20.16.003/2009-10 dated 1-7-2009), a "wilful default" would be **deemed** to have occurred if any of the following events is noted and the Unit has defaulted in meeting its payment / repayment obligations to the lender :

- (i) even when it has the capacity to honour the said obligations.
- (ii) and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- (iii) the unit has defaulted has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- (iv) and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.

Diversion and siphoning of funds

The terms "diversion of funds" and "siphoning of funds" should construe to mean the following

- (a) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;
- (b) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;
- (c) transferring funds to the subsidiaries / Group companies or other corporates by whatever modalities;
- (d) routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender;
- (e) investment in other companies by way of acquiring equities / debt instruments without approval of lenders;
- (f) shortfall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.

Role of auditors (as per Para 2.7 of the Circular)

In case any falsification of accounts on the part of the borrowers is observed by the banks / FIs, and if it is observed that the auditors were negligent or deficient in conducting the audit, they should lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India (ICAI) to enable the ICAI to examine and fix accountability of the auditors.

With a view to monitoring the end-use of funds, if the lenders desire a specific certification from the borrowers' auditors regarding diversion / siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors the banks and FIs will also need to ensure that appropriate covenants in the loan agreements are incorporated to enable award of such a mandate by the lenders to the borrowers / auditors.

Role of Internal Audit / Inspection (as per Para 2.8 of the Circular)

The aspect of diversion of funds by the borrowers should be adequately looked into while conducting internal audit/inspection of their offices/branches and periodical reviews on cases of wilful defaults should be submitted to the Audit Committee of the bank.

l) **EVERGREENING OF ACCOUNTS ON FREQUENT BASIS**

(REHABILITATION/REPHASEMENTS/RESTRUCTURING/RESCHEDULING /FREQUENT EXCESS, AD HOCS)
WCT/FITL/WCDL ACCOUNTS ARE CLEARLY INDICATIVE OF THESE, as these arise out of defaults in servicing of debts

- m) **INAPPROPRIATE COMPUTATION OF DP** in advances against stocks contrary to RBI directives, leading to higher limits not warranted as per norms, i.e., **without deduction of unpaid for stocks** comprised in Sundry Creditors/Other liabilities in the books of the Borrower.

n) **NON UPDATION OF RECORDS OF THE BANK, LIKE**

BANK AUDIT – FRAUDS

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(Broad Guidance and information on expectations from Auditors in Bank Audit)

- o) LARGE CASH TRANSACTIONS** (above Rs.10 lakhs), **AND THOSE UNUSUAL IN NATURE**, unreported; or those not permitted (e.g. Bank Drafts over Rs.50000 against cash), Sudden opening of several Customer Accounts, e.g. for new share issues.
(these would require review of Daily Exceptional Reports generated in the EDP Environment)
- p) LOSS OF AUDIT TRAIL** DUE TO NON PRINTING OF THE BOOKS AT PERIODIC INTERVALS OR IN FILING OF PRINTED LEDGERS MONTH-WISE AND NOT HEAD-WISE.
- q) NON/DELAYED COMPLIANCE OF INSPECTION AND OTHER REPORTS**
(SYSTEM AUDIT DEFICIENCIES IGNORED/NOT REMEDIED) AND BASIC CONCEPTS IGNORED e.g. DISTINCTION NOT MAINTAINED BETWEEN INTEREST ACCRUED AND DUE/NOT DUE]
[e.g., FCNR(B) INTEREST ACCRUES *BUT IS NOT DUE* ON 2-5 YEAR DEPOSITS; ON SAVINGS BANK ACCOUNTS IT IS DUE *THOUGH NOT APPLIED*]
- r) NON VERIFICATION OF CURRENCY CHEST BALANCES BY BANK, LEADING TO CLAIMS ON THE BANK BY RBI, FOR SHORTAGES, FORGERIES AND FRAUDS (ARISING OUT OF NON OBSERVANCE OF THE LAID DOWN GUIDELINES OF THE RBI)**

6. EXTENSIVE COMPUTERISATION (AND BUNDLE OF RISKS ATTACHED)

- OLD OUTSTANDINGS PICKED UP FROM MANUAL RECORDS, REMAINING UNADJUSTED
- DOUBLE DEBITS - FOR THE SAME TRANSACTION IN MANUALLY MAINTAINED ACCOUNTS AND COMPUTERISED ACCOUNTS ON MIGRATION TO EDP ENVIRONMENT
- SECURITY SYSTEMS NOT IN PLACE FOR HARDWARE/SOFTWARE
- NON ROTATION OF STAFF DUTIES
- BACK UPS/ OFF SITE STORAGE ... SYSTEMS NOT IN FORCE OR NOT TESTED
- **EXCEPTIONAL REPORTS TAKEN LIGHTLY**
- PRINT OUTS NOT TAKEN OF THE BOOKS REGULARLY/HARD COPIES NOT FILED PROPERLY
- **EFFECTIVE DATES NOT OBSERVED FOR CHANGES IN THE SYSTEM/SOFTWARE....** e.g. CHANGES IN INTEREST RATES
- NO IS AUDIT
- MANUAL INTERVENTION TO EDP DATA – CONTROL ISSUES

8. DOCUMENTS PERTAINING TO ADVANCES BEING IN CENTRALISED CONTROL AND CUSTODY OF OFFICES (Loan Processing Centres) , OTHER THAN THE BRANCH WHICH MAINTAINS THE ADVANCE ACCOUNTS. RISK OF LOAN PROCESSED PAPERS AND SANCTION/DOCUMENTATION, NOT BEING IN CONSONANCE WITH THE SANCTIONS CONVEYED OR NOT UPDATED FOR BRANCH; AS ALSO AUTHENTICITY OF THE SANCTION LETTERS AND THE TERMS CONTAINED THEREIN.

7. FRAUDS IN HOUSING FINANCE

(Refer THE INITIAL circular UBD No. BPD.15/12.05.01/2004-05 dated 1-9-2004)

This lists out the type of frauds that have taken place as per the report of the Committee on Frauds in Housing Finance, as under:

1. Fabrication of income documents (Income tax return/salary slips/balance sheet)
2. Loans disbursed (cheques/drafts) by banks are encashed by third parties/agents
3. Title documents being forged – stamped documents forged by borrower Customer/builder
4. Over valuation of the property
5. Multiple financing
6. Cancellation of booking of flats/property by collusion
7. Sale of property by loanee without clearing the loan
8. Misrepresentation of end use of the loan
9. Sale of the property by builder without clearing/repaying construction funding loan availed from the bank/housing finance companies

FRAUDS IN NON RESIDENT ACCOUNTS

(Refer initial RBI Circular DBS.FrMC.No.3/23.04.001/2004-05 dated 26-8-2004)

BANK AUDIT (2009-10)
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S.No	List of Disclosure Items (50 basic items broadly comprised under the following heads - FOR CURRENT AND PREVIOUS YEAR)
1#	Capital - Capital Adequacy Ratio Capital Adequacy Ratio - Tier I capital Capital Adequacy Ratio - Tier II capital Percentage of Shareholding of Government of India in the nationalized banks. Amount of Subordinated debt raised as Tier-II capital
2#	Investments - Gross value of investments, etc. (In/outside India) Provisions made towards depreciation in the value of Investments Movement of provisions held towards depreciation on investments Repo Transactions – Securities purchased/sold Non-SLR Investment Portfolio –Issuer Composition- Non Performing Derivatives - Forward Rate Agreement/ Interest Rate Swap Exchange Traded Interest Rate Derivatives Disclosures on risk exposure in derivatives-Qualitative/Quantitative
3.	Asset Quality NPAs - Percentage of Net NPAs to Net advances Movements in NPAs (Gross/Net) – Provisions for NPAs
4	Details of Loan assets subjected to Restructuring Restructuring under CDR
5	Details of financial assets sold to SC/RC for Asset Reconstruction
6	Details of non performing financial assets purchased/sold
7	Provision on Standard Assets
8#	Business Ratios - Interest Income as a percentage to Working Funds Non-interest Income as a percentage to Working Funds Operating Profit as a percentage to Working Funds Return on Assets Business (deposits plus advances) per employee - Profit per employee
9	Asset Liability Management - Maturity pattern of some Assets and Liabilities Deposits; Advances; Investments; Borrowings; Foreign Currency Assets and Liabilities
10	Exposures - Exposure to Real Estate - Direct/ Indirect exposure
11#	Exposure to Capital Market Advances for and Investment in Equity Shares, etc & Bank Financing for Margin Trading Risk Category-wise Country Exposure Details of Single Borrower/Group Borrower Limit exceeded by the bank
12#	Provisions made towards Income Tax during the year
13	Penalties imposed by RBI
14	Disclosures as per Accounting Standards – where RBI Guidelines have been issued (AS 5, 9, 15,17,18,21,22,23,24.25 and others issued by ICAI)
15#	Provisions and Contingencies Floating Provisions Drawdown from Reserves
16#	Customer Complaints/Awards passed by Banking Ombudsman
17	Letters of Comfort issued
18	Bank assurance

(Refer RBI Master Circular DBOD.BP.BC No.22 /21.04.018/2009-10dated 1-7-2009)# Information not directly relevant at the Branch Level, or that collated on a centralized basis.

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3.1 Capital

3.1 Capital

3.2 Investments

3.2 Investments

BANK AUDIT – Disclosure in Financial Statements - Notes to Accounts
(RBI Master Circular - DBOD.BP.BC No.22 /21.04.018/2009-10 dated 1-7-2009)

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3.2.1 Repo Transactions

(Rs. in crore)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31
Securities sold under repos				
Securities purchased under reverse repos				

3.2.2. Non-SLR Investment Portfolio

i) Issuer composition of Non SLR investments

(Rs. in crore)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSUs					
(ii)	FIs					
(iii)	Banks					
(iv)	Private Corporates					
(v)	Subsidiaries/ Joint Ventures					
(vi)	Others					
(vii)	Provision held towards depreciation		X X X	X X X	X X X	X X X
	Total *					

Note: (1) *Total under column 3 should tally with the total of Investments included under the following categories in Schedule 8 to the balance sheet:

a) Shares; **b)** Debentures & Bonds; **c)** Subsidiaries/joint ventures; and **d)** Others

(2) Amounts reported under columns 4, 5, 6 and 7 above may not be mutually exclusive.

ii) Non performing Non-SLR investments

(Rs. in crore)

Particulars	Amount
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

3.3 Derivatives

3.3.1 Forward Rate Agreement/ Interest Rate Swap (Rs. in crore)

Particulars	Current year	Previous year
(i) The notional principal of swap agreements (ii) Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements (iii) Collateral required by the bank upon entering into swaps (iv) Concentration of credit risk arising from the swaps \$ (v) The fair value of the swap book @		

Note: Nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the swaps should also be disclosed.

\$ Examples of concentration could be exposures to particular industries or swaps with highly geared companies.

@ If the swaps are linked to specific assets, liabilities, or commitments, the fair value would be the estimated amount that the bank would receive or pay to terminate the swap agreements as on the balance sheet date. For a trading swap the fair value would be its mark to market value.

3.3.2 Exchange Traded Interest Rate Derivatives

(Rs. in crore)		
S.No.	Particulars	Amount
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise) a) b) c)	
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March (instrument-wise) a) b) c)	
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise) a) b) c)	
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise) a) b) c)	

3.3.3 Disclosures on risk exposure in derivatives

Qualitative Disclosure

Banks shall discuss their risk management policies pertaining to derivatives with particular reference to the extent to which derivatives are used, the associated risks and business purposes served. The discussion shall also include:

- a) the structure and organization for management of risk in derivatives trading,
- b) the scope and nature of risk measurement, risk reporting and risk monitoring systems,
- c) policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants, and
- d) accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

Quantitative Disclosures

(Rs. in crore)			
S.No	Particulars	Currency Derivatives	Interest rate derivatives
(i)	Derivatives (Notional Principal Amount)		
	a) For hedging		
	b) For trading		
(ii)	Marked to Market Positions [1]		
	a) Asset (+)		
	b) Liability (-)		
(iii)	Credit Exposure [2]		
(iv)	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives		
	b) on trading derivatives		
(v)	Maximum and Minimum of 100*PV01 observed during the year		
	a) on hedging		
	b) on trading		

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3.4 Asset Quality
3.4.1 Non-Performing Assets

(Rs. in crore)

Particulars	Current Year	Previous Year
(i) Net NPAs to Net Advances (%)		
(ii) Movement of NPAs (Gross)		
a) Opening balance		
b) Additions during the year		
c) Reductions during the year		
d) Closing balance		
(iii) Movement of Net NPAs		
a) Opening balance		
b) Additions during the year		
c) Reductions during the year		
d) Closing balance		
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
a) Opening balance		
b) Provisions made during the year		
c) Write-off/ write-back of excess provisions		
d) Closing balance		

3.4.2 Particulars of Accounts Restructured

(Rs. in crore)

		CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
Sub-standard advances restructured	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
Doubtful advances restructured	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
TOTAL	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			

BANK AUDIT – Disclosure in Financial Statements - Notes to Accounts
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3.4.3. Details of financial assets sold to Securitisation/Reconstruction Company for Asset Reconstruction

(Rs. in crore)

Particulars	Current year	Previous Year
(i) No. of accounts		
(ii) Aggregate value (net of provisions) of accounts sold to SC/RC		
(iii) Aggregate consideration		
(iv) Additional consideration realized in respect of accounts transferred in earlier years		
(v) Aggregate gain/loss over net book value		

3.4.4 Details of non-performing financial assets purchased/sold

Banks which purchase non-performing financial assets from other banks shall be required to make the following disclosures in the Notes on Accounts to their Balance sheets:

A. Details of non-performing financial assets purchased:

(Rs. in crore)

Particulars	Current year	Previous Year
1. (a) No. of accounts purchased during the year		
(b) Aggregate outstanding		
2. (a) Of these, number of accounts restructured during the year		
(b) Aggregate outstanding		

B. Details of non-performing financial assets sold:

(Rs. in crore)

Particulars	Current year	Previous Year
1. No. of accounts sold		
2. Aggregate outstanding		
3. Aggregate consideration received		

3.4.5. Provisions on Standard Assets

(Rs. in crore)

Particulars	Current year	Previous Year
Provisions towards Standard Assets		

Note: Provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Provisions against Standard Assets', under 'Other Liabilities and Provisions - Others' in Schedule No. 5 of the balance sheet.

3.5. Business Ratios

Particulars	Current year	Previous Year
(i) Interest Income as a percentage to Working Funds \$		
(ii) Non-interest income as a percentage to Working Funds		
(iii) Operating Profit as a percentage to Working Funds \$		
(iv) Return on Assets@		
(v) Business (Deposits plus advances) per employee # (Rs.in crore)		
(vi) Profit per employee (Rs. in crore)		

\$ Working funds to be reckoned as average of total assets (excluding accumulated losses, if any) as reported to Reserve Bank of India in Form X under Section 27 of the Banking Regulation Act, 1949, during the 12 months of the financial year.

@ 'Return on Assets would be with reference to average working funds (i.e. total of assets excluding accumulated losses, if any).

For the purpose of computation of business per employee (deposits plus advances) inter bank deposits may be excluded.

3.6 Asset Liability Management

Maturity pattern of certain items of assets and liabilities

(Rs. in crore)

	Day 1	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 Month	Over 3 month & up to 6 month	Over 6 Month & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits											
Advances											
Investments											
Borrowings											
Foreign Currency assets											
Foreign Currency liabilities											

3.7 Exposures

3.7.1 Exposure to Real Estate Sector (Rs. in crore)

Category	Current year	Previous Year
a) Direct exposure (i) <u>Residential Mortgages –</u> Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Individual housing loans eligible for inclusion in priority sector advances may be shown separately) (ii) <u>Commercial Real Estate –</u> Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits; (iii) <u>Investments in Mortgage Backed Securities (MBS) and other securitised exposures –</u> a. Residential, b. Commercial Real Estate. b) Indirect Exposure Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).		
Total Exposure to Real Estate Sector		

3.7.2.Exposure to Capital Market (Rs. in crore)

Particulars	Current year	Previous Year
(i) direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt; (ii) advances against shares/bonds/ debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds; (iii) advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security; (iv) advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds `does not fully cover the advances; (v) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers; (vi) loans sanctioned to corporates against the security of shares / bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources; (vii) bridge loans to companies against expected equity flows/issues; (viii) underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds; (ix) financing to stockbrokers for margin trading; (x) all exposures to Venture Capital Funds (both registered and unregistered)		
Total Exposure to Capital Market		

3.7.3. Risk Category wise Country Exposure

(Rs. in crore)

Risk Category*	Exposure (net) as at March... (Current Year)	Provision held as at March... (Current Year)	Exposure (net) as at March... (Previous Year)	Provision held as at March... (Previous Year)
Insignificant				
Low				
Moderate				
High				
Very High				
Restricted				
Off-credit				
Total				

*Till such time, as banks move over to internal rating systems, banks may use the seven category classification followed by Export Credit Guarantee Corporation of India Ltd. (ECGC) for the purpose of classification and making provisions for country risk exposures. ECGC shall provide to banks, on request, quarterly updates of their country classifications and shall also inform all banks in case of any sudden major changes in country classification in the interim period.

3.7.4 Details of Single Borrower Limit (SGL)/ Group Borrower Limit (GBL) exceeded by the bank.

Disclosure in respect of the exposures where the bank had exceeded the prudential exposure limits during the year.

The sanctioned limit or entire outstanding, whichever is high, shall be reckoned for arriving at exposure limit and for disclosure purpose.

3. 7.5 Unsecured Advances

Total amount of intangible securities such as charge over the rights, licenses, authorisations, etc., as also the estimated value of such intangible collateral in respect of projects (including infrastructure projects) financed, is not to be included in and shown as *secured by tangible security* but included under unsecured advances in ‘Schedule 9 Advances’ and further, it is to be segregated and shown separately.

Corresponding comparative figures are to be given

3.8 Miscellaneous

3.8.1. Amount of Provisions made for Income-tax during the year: (Rs. in crore)

Particulars	Current year	Previous year
Provision for Income Tax		

3.8.2 Disclosure of Penalties imposed by RBI

Reserve Bank is empowered to impose penalties on a commercial bank under the provision of Section 46 (4) of the Banking Regulation Act, 1949, for contraventions of any of the provisions of the Act or non-compliance with any other requirements of the Banking Regulation Act, 1949; order, rule or condition specified by Reserve Bank under the Act. Details of the levy of penalty on the bank is to be disclosed.

4. Disclosure Requirements as per Accounting Standards where RBI has issued guidelines in respect of disclosure items for ‘Notes to Accounts:

4.1 Accounting Standard 5 – Net Profit or Loss for the period, prior period items and changes in accounting policies.

4.2 Accounting Standard 9 – Revenue Recognition

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4.4 Accounting Standard 17 – Segment Reporting

d) Banks may adopt their own methods, on a reasonable and consistent basis, for allocation of expenditure among the segments

Part A: Business segments

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Part B: Geographic segments

(Rs. in crore)

	Domestic		International		Total	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Revenue						
Assets						

4.5 Accounting Standard 18 – Related Party Disclosures

The illustrative disclosure format recommended by the ICAI as a part of General Clarification (GC) 2/2002 has been suitably modified to suit banks, as under:.

Format for Related Party Disclosures

(The manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated below. It may be noted that the format is merely illustrative and is not exhaustive). (Rs. in crore)

Items/Related Party	Parent (as per ownership or control)	Subsidiaries	Associates/ Joint ventures	Key Management Personnel @	Relatives of Key Management Personnel	Total
Borrowings #						
Deposit#						
Placement of deposits #						
Advances #						
Investments#						
Non-funded commitments#						
Leasing/HP arrangements availed #						
Leasing/HP arrangements provided #						
Purchase of fixed assets						
Sale of fixed assets						
Interest paid						
Interest received						
Rendering of services *						
Receiving of services *						
Management contracts*						

Note: Where there is only one entity in any category of related party, banks need not disclose any details pertaining to that related party other than the relationship with that related party [c.f. Para 8.3.1 of the Guidelines]

* Contract services etc. and not services like remittance facilities, locker facilities etc.

@ Whole time directors of the Board and CEOs of the branches of foreign banks in India.

The outstanding at the year-end and the maximum during the year are to be disclosed.

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Illustrative disclosure of names of the related parties and their relationship with the bank

1. Parent	A Ltd
2. Subsidiaries	B Ltd and C Ltd
4. Associates	P Ltd, Q Ltd and R Ltd
5. Jointly controlled entity	L Ltd
6. Key Management Personnel	Mr.M and Mr.N
7. Relatives of Key Management Personnel	Mr.D and Mr.E

4.6 Accounting Standard 21 – Consolidated Financial Statements (CFS)

A parent company, presenting the CFS, should consolidate the financial statements of all subsidiaries - domestic as well as foreign, except those specifically permitted to be excluded under the AS-21. The reasons for not consolidating a subsidiary should be disclosed in the CFS. The responsibility of determining whether a particular entity should be included or not for consolidation would be that of the Management of the parent entity. In case, its Statutory Auditors are of the opinion that an entity, which ought to have been consolidated, has been omitted, they should incorporate their comments in this regard in the "Auditors Report".

4.7 Accounting Standard 22 – Accounting for Taxes on Income

This Standard is applied in accounting for taxes on income. This includes the determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statements. Adoption of AS 22 may give rise to creation of either a deferred tax asset (DTA) or a deferred tax liability (DTL) in the books of accounts of banks and creation of DTA or DTL would give rise to certain issues which have a bearing on the computation of capital adequacy ratio and banks' ability to declare dividends. In this regard it is clarified as under:

- DTL created by debit to opening balance of Revenue Reserves on the first day of application of the Accounting Standards 22 or to Profit and Loss account for the current year should be included under item (vi) 'others (including provisions)' of Schedule 5 - 'Other Liabilities and Provisions' in the balance sheet. The balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose as it is not an eligible item of capital.
- DTA created by credit to opening balance of Revenue Reserves on the first day of application of Accounting Standards 22 or to Profit and Loss account for the current year should be included under item (vi) 'others' of Schedule 11 'Other Assets' in the balance sheet.
- Creation of DTA results in an increase in Tier I capital of a bank without any tangible asset being added to the banks' balance sheet. Therefore, in terms of the extant instructions on capital adequacy, DTA, which is an intangible asset, should be deducted from Tier I Capital.

4.8 Accounting Standard 23 – Accounting for Investments in Associates in Consolidated Financial Statements

This Accounting Standard sets out principles and procedures for recognising, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a group. A bank may acquire more than 20% of voting power in the borrower entity in satisfaction of its advances and it may be able to demonstrate that it does not have the power to exercise significant influence since the rights exercised by it are protective in nature and not participative. In such a circumstance, such investment may not be treated as investment in associate under this Accounting Standard. Hence the test should not be merely the proportion of investment but the intention to acquire the power to exercise significant influence.

4.9 Accounting Standard 24 – Discontinuing Operations

Merger/ closure of branches of banks by transferring the assets/ liabilities to the other branches of the same bank may not be deemed as a discontinuing operation and hence this

BANK AUDIT – Disclosure in Financial Statements - Notes to Accounts
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Accounting Standard will not be applicable to merger / closure of branches of banks by transferring the assets/ liabilities to the other branches of the same bank.

Disclosures would be required under the Standard only when:

- a) discontinuing of the operation has resulted in shedding of liability and realisation of the assets by the bank or decision to discontinue an operation which will have the above effect has been finalised by the bank and
- b) the discontinued operation is substantial in its entirety.

4.10 Accounting Standard 25 – Interim Financial Reporting
The half yearly review prescribed by RBI for public sector banks, in consultation with SEBI, vide circular DBS. ARS. No. BC 13/ 08.91.001/ 2000-01 dated 17th May 2001 is extended to all banks (both listed and unlisted) with a view to ensure uniformity in disclosures. Banks may adopt the format prescribed by the RBI for the purpose.

4.11 Other Accounting Standards
Banks are required to comply with the disclosure norms stipulated under the various Accounting Standards issued by the Institute of Chartered Accountants of India.

4.12.Additional Disclosures

4.12.1 Provisions and Contingencies

To facilitate easy reading of the financial statements and to make the information on all Provisions and Contingencies available at one place, banks are required to disclose in the ‘Notes to Accounts’ the following information: (Rs. in crore)

<i>Break up of ‘Provisions and Contingencies’ shown under the head Expenditure in Profit and Loss Account</i>	<i>Current Year</i>	<i>Previous Year</i>
Provisions for depreciation on Investment		
Provision towards NPA		
Provision towards Standard Asset		
Provision made towards Income tax		
Other Provision and Contingencies (with details)		

4.12.2 Floating Provisions
Banks should make comprehensive disclosures on floating provisions in the “notes to accounts” to the balance sheet as follows: (Rs. in crore)

<i>Particulars</i>	<i>Current year</i>	<i>Previous year</i>
(a) Opening balance in the floating provisions account		
(b) The quantum of floating provisions made in the accounting year		
(c) Amount of draw down made during the accounting year		
(d) Closing balance in the floating provisions account		

Note: The purpose of draw down made during the accounting year may be mentioned

4.12.3 Draw Down from Reserves

BANK AUDIT – Disclosure in Financial Statements - Notes to Accounts
(RBI Master Circular - DBOD.BP.BC No.22 /21.04.018/2009-10 dated 1-7-2009)

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4.12.4 Disclosure of complaints
Banks are also advised to disclose the following brief details along with their financial results:

A. Customer Complaints

(a)	No. of complaints pending at the beginning of the year	
(b)	No. of complaints received during the year	
(c)	No. of complaints redressed during the year	
(d)	No. of complaints pending at the end of the year	

B. Awards passed by the Banking Ombudsman

(a)	No. of unimplemented Awards at the beginning of the year	
(b)	No. of Awards passed by the Banking Ombudsmen during the year	
(c)	No. of Awards implemented during the year	
(d)	No. of unimplemented Awards at the end of the year	

4.12.5 Disclosure of Letters of Comfort (LoCs) issued by banks

Banks should disclose full particulars of all the Letters of Comfort (LoCs) issued by them during the year, including their assessed financial impact, as also their assessed cumulative financial obligations under the LoCs issued by them in the past and outstanding, in its published financial statements, as part of the ‘Notes to Accounts’.

5. Disclosure in Balance Sheet – Bancassurance Business

Banks should disclose the details of fees/remuneration received in respect of the bancassurance business undertaken by them

(Refer RBI Circular No. DBOD.No. FSD.BC. 67 /24.01.001/2009-10 dated 7-1-2010 effective for the year 2009-10).

BANK BRANCH AUDIT (2009-10)

**TEXT OF NEGATIVE ASSURANCE CERTIFICATE RECOMMENDED TO BE ISSUED
ON THE GHOSH AND JILANI COMMITTEE RECOMMENDATIONS**

"We have in the course of audit of _____ Branch of _____ Bank, and based on a test check procedures adopted in respect of the accounts for the year 2009-10, broadly reviewed the internal control procedures of the Bank considered relevant for audit, as also arising out of the recommendations of the Ghosh and Jilani Committees, and have relied upon the information, explanations and management responses /assertions stated against each item in the statement/format prepared (*Certificate Nos.____ and ____);and, except as otherwise stated in our main report and Long Form Audit Report dated_____, we have not come across anything that causes us to believe that there are any significant /material misstatements/ assertions made, as would have effect on our opinion on the financial statements under audit."

For _____
CHARTERED ACCOUNTANTS

(Partner) Membership No.....

** in case the responses are given in the form of Certificates.*

BANK AUDIT- Abbreviations used in the banking industry**N**

Abbreviations have often been found to be used by the banking industry and in the Circulars/ guidelines/directions of the Reserve bank of India. It is appropriate to understand what these abbreviations are.

<u>Abbreviation</u>	<u>Expanded form</u>
AACS	As Applicable to Co-operative Societies
AD	Authorised Dealer
ADR	American Depository Receipt
AFS	Available For Sale
AICCCA	Association of Independent Consumer Credit Counseling Agencies
AIFI	All-India Financial Institution
ALM	Asset-Liability Management
AMC	Asset Management Company
AML	Anti-Money Laundering
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Ltd.
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning Process
BCSBI	Banking Codes and Standards Board of India
BFS	Board for Financial Supervision
BIFR	Board for Industrial and Financial Reconstruction
BoP	Balance of Payments
BOS	Banking Ombudsman Scheme
BPLR	Benchmark Prime Lending Rate
BPSS	Board for Payment and Settlement Systems
BSC	Balanced Scorecard
BSE	Bombay Stock Exchange Ltd.
BSR	Basic Statistical Return
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and control
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Core Banking Solutions
CCCS	Consumer Credit Counseling Service
CCDM	Credit Counseling and Debt Management
CCIL	Clearing Corporation of India Ltd.
CCP	Central Counter Party
CD	Certificate of Deposit
CDBMS	Central Data-base Management System
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CDRM	Corporate Debt Restructuring Mechanism
CEO	Chief Executive Officer
CFMS	Centralised Funds Management System
CFS	Consolidated Financial Statements
CFT	Combating Financing of Terrorism
CGTSI	Credit Guarantee Trust for Small Industries
CIBIL	Credit Information Bureau of India Limited
CLCC	Central Labour Co-ordination Committee
CLF	Collateralised Lending Facility
CMP	Conflict Management Policy
COBIT	Control Objectives for Information and related Technology
CP	Commercial Paper
CPC	Cheque Processing Centre
CPI	Consumer Price Index
CPOS	Central Point of Supervision
CPPAPS	Committee on Procedures and Performance Audit on Public Services
CPSS	Committee on Payment and Settlement System
CRAR	Capital to Risk-Weighted Assets Ratio
CRCS	Central Registrar of Co-operative Societies
CRR	Cash Reserve Ratio
CSA	Co-operative Societies Act
CSD	Customer Service Department
CSCI	Constituent Subsidiary General Ledger

BANK AUDIT- Abbreviations used in the banking industry**N**

DAPs	Development Action Plans
DCCB	District Central Co-operative Banks
DLIC	District Level Implementation Committee
DCRR	Department for Co-operative Revival and Reforms
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DLIC	District Level Implementation and Monitoring Committee
DMA	Direct Marketing Agent
DNSS	Deferred Net Settlement System
DPSS	Department of Payment and Settlement Systems
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal
DSA	Direct Sales Agent
DTL	Demand and Time Liability
DvP	Delivery <i>versus</i> Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing
ECGC	Export Credit Guarantee Corporation
ECS	Electronic Clearing Service
EFT	Electronic Funds Transfer
EME	Emerging Market Economy
ESOP	Employee Stock Option Plans
ETF	Empowered Task Force
EWS	Early Warning System
EXIM Bank	Export Import Bank of India
FAQs	Frequently Asked Questions
FBT	Fringe Benefit Tax
FCAC	Fuller Capital Account Convertibility
FCNR	Foreign Currency Non-Resident
FCNR (B)	Foreign Currency Non-Resident (Banks)
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FEDAI	Foreign Exchange Dealers Association of India
FFI	Foreign Financial Institution
FFMC	Full Fledge Money Changer
FI	Financial Institution
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FINO	Financial Information Network and Operations
FIPB	Foreign Investment Promotion Board
FIU-IND	Financial Intelligence Unit - India
FMC	Forward Market Commission
FMD	Financial Markets Department
FRA	Forward Rate Agreement
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FRMS	Fraud Reporting and Monitoring System
FSAP	Financial Sector Assessment Programme
FSR	Financial Stability Report
FST	Financial Sector Technology
GCC	General Credit Card
GCS	Gold Card Scheme
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
IT	Information Technology
ITGGSM	Internal Technical Group on Government Securities Market
ITGI	IT Governance Institute
ITIL	IT Infrastructure Library
JPC	Joint Parliamentary Committee
KCC	Kisan Credit Card
KVIB	Khadi and Village Industries Board
KYC	Know your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility

BANK AUDIT- Abbreviations used in the banking industry**N**

<u>Abbreviation</u>	<u>Expanded form</u>
MAP	Monitorable Action Plan
MLRO	Money Laundering Reporting Officer
MEDP	Micro Enterprise Development Programme
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institution
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MIS	Management Information System
MLRO	Money Laundering Reporting Office
MMBCS	Magnetic Media Based Clearing System
MNBC	Miscellaneous Non-Banking Companies
MNSB	Multilateral Net Settlement Batch
MoU	Memorandum of Understanding
MSS	Market Stabilisation Scheme
MPLS	Multi-Protocol Layer Switching
NABARD	National Bank for Agriculture and Rural Development
NAFCUB	National Federation of Co-operative Urban Banks
NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NBFI	Non-Banking Financial Institutions
NBV	Net Book Value
NDS	Negotiated Dealing System
NDS-OM	NDS Order Matching
NDTL	Net Demand and Time Liability
NEDFi	North Eastern Development Finance Corporation
NEFT	National Electronic Fund Transfer
NFCC	National Foundation for Credit Counselling
NFGBC	Non-food Gross Bank Credit
NFS	National Financial Switch
NGO	Non-Government Organisation
NHB	National Housing Bank
NHC	National Housing Credit
NIA	New India Assurance Company Limited
NIC	National Industrial Credit
NIMC	National Implementation Monitoring Committee
NOC	No Objection Certificate
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPFA	Non-Performing Financial Assets
NPL	Non-Performing Loan
NRE	Non-Resident External
NRI	Non-Resident Indian
NRNR	Non Resident Non Repatriable (Account)
NRSR	Non Resident Special Rupee (Account)
NSE	National Stock Exchange
OBS	Off-balance Sheet
OBU	Off-Shore Banking Unit
OECD	Organisation for Economic Co-operation and Development
OLRR	On-line Reject Repair
OLTAS	On-line Tax Accounting System
ORFS	On-line Returns Filing System
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance System
OTC	Over the Counter
OTS	One Time Settlement
PACS	Primary Agricultural Credit Society
PAIS	Personal Accident Insurance Scheme
PCARDB	Primary Co-operative Agricultural and Rural Development Bank
PD	Primary Dealer
PIO	Principal Inspection Officer
PKI	Public Key Infrastructure

BANK AUDIT- Abbreviations used in the banking industry**N**

<u>Abbreviation</u>	<u>Expanded form</u>
RBIA	Risk-Based Internal Audit
RBS	Risk-Based Supervision
RCS	Registrar of Co-operative Societies
RIDF	Rural Infrastructural Development Fund
RNBC	Residuary Non-Banking Company
ROC	Registrar of Companies
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
SAA	Service Area Approach
SACP	Special Agricultural Credit Plan
SAO	Seasonal Agricultural Operations
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SAR	Self-Assessment Report
SARS	Severe Acute Respiratory Syndrome
SCARDB	State Co-operative Agricultural and Rural Development Bank
SCB	Scheduled Commercial Bank
SC	Scheduled Caste
SDS	Special Deposit Scheme
SEB	State Electricity Board
SEBI	Securities and Exchange Board of India
SEFCs	Small Enterprises Financial Centres
SEFT	Special Electronic Funds Transfer
SEZ	Special Economic Zones
SFAC	Small Farmers Agri-Business Consortium
SFC	State Financial Corporation
SFMS	Structured Financial Messaging System
SGL	Subsidiary General Ledger
SGSY	Swarn Jayanti Gram Swarojgar Yojna
SHG	Self-Help Group
SHPI	Self-Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIPS	Systemically Important Payment System
SJSRY	Swarna Jayanti Shahari Rojgar Yojna
SLA	Service Level Agreement
SLAF	Second Liquidity Adjustment Facility
SLBCs	State Level Bankers' Committees
SLEPCS	State Level Export Promotion Committees
SLR	Statutory Liquidity Ratio
SLRS	Scheme for Liberalisation and Rehabilitation of Scavengers
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
SSC	Special Sub-Committees
SSI	Small Scale Industry
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure
STP	Straight Through Processing
STR	Suspicious Transaction Report
STRIPS	Separate Trading of Registered Interest and Principal of Securities
ST	Scheduled Tribe
SWIFT	Society for Worldwide Financial Telecommunication
TAFCUB	Task Force for Urban Co-operative Banks
TFCI	Tourism Finance Corporation of India
UCB	Urban Co-operative Bank
UIA	United India Assurance Company Ltd.
UTI	Unit Trust of India
UTLBC	Union Territory Level Bankers' Committee
VaR	Value at Risk
VCF	Venture Capital Fund
VKC	Village Knowledge Centre
VPN	Virtual Private Networks